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CIS

SUPPORTING A FAMILY: PROVIDING THE BASICS

HEARING

BEFORE THE

SELECT COMMITTEE ON CHILDREN, YOUTH, AND FAMILIES HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, D.C., ON
JULY 18, 1983

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SUPPORTING A FAMILY: PROVIDING THE BASICS

MONDAY, JULY 18, 1983

House of Representatives,
Task Force on Economic Security,
Select Committee on Children, Youth, and Families,
Washington, D.C.

The task force met, pursuant to call, at 9:30 a.m., in room 210, Cannon House Office Building, Hon. Patricia Schroeder (chairperson of the task force) presiding.

Members present: Representatives Schroeder, Boggs, Levin, Marriott, Coats, and Wolf.

Staff present: Alan J. Stone, staff director and counsel; Ann Rosewater, deputy staff director, Christine Elliott-Groves, minority staff director; Donald Kline, senior professional staff; Linda Ittner, professional staff; and Joan Godley, committee clerk.

Mrs. Schroeder. I would like to welcome you to the first hearing of the task force on economic security.

As you know, the select committee was established for many reasons, but one of the main ones was to see how the different social and economic trends were affecting families and children.

Obviously, we know there has been a very fundamental change in the economics of family life. I don't think that is a surprise to anybody who reads the paper or tries to pay the bills.

We are going to have a very interesting morning and have many different people commenting on this in several panels. I personally want to thank all the panels for coming and giving your time to help us get started on this issue.

I would ask unanimous consent to put my written remarks in the record and unanimous consent that the full committee chairman, Congressman Miller, be allowed to put his comments in the record as an opening statement. We are very honored to have the ranking minority member of this task force with us this morning. I would now like to call on Congressman Dan Coats to see if he has an opening statement.

[Opening statement of Hon. Patricia Schroeder follows:]

Opening Statement of Hon. Patricia Schroeder, a Representative in Congress From the State of Colorado

I would like to welcome you to the first hearing of the Task Force on Economic Security of the Select Committee on Children, Youth, and Families.

This Committee was established, among other reasons, because members recognized how profoundly social and economic trends are impacting on families and children. One obviously fundamental change has been that the economics of family life are new: both parents are working now, not just one, while at the same time the costs of housing, food, transportation, health care, and education are rising beyond peoples, means. So we chose today to begin at the begininning—to look at the basics of economic survival for families and the trends for the future. Economics has as much to with keeping a family well and together as any other factor.

The first panel this morning will look at how changes in family structure, the economy, and the labor market are affecting the earning power of families.

The second panel will talk about trends in health care costs and how changes in the economy and the federal budget affect the health care of families. They will look at the major federal health programs and make some predictions about the future. We will also hear about the costs of higher education—who is going to college today, and how they are paying for it.

The final panel will concentrate on changes in the economy and in families themselves that effect the availability and affordability on housing. They will describe the high cost of home ownership and the problems of renters who cannot afford to buy. They will trace for us federal efforts to meet the housing needs of families and give an outlook for the future.

Each of us has watched the fears grow among American families in the last decade that they won't be secure in the basics—own't be able to buy or rent a house, pay the doctor bills, or afford to send their children to college.

For that reason, this task force will begin today its own in-depth assessment of how economically secure the family is, and will be in the years ahead.

[Chairman Miller's opening statement follows:]

OPENING STATEMENT OF HON. GEORGE MILLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

At the time the Select Committee was established, members expressed their concern over the impact certain social and economic trends are having on our families and the well-being of our children.

We know, for example, that in the majority of families both parents now work. The financial resources they bring in have a great deal to do with the quality of life for that family, especially with regard to providing a productive environment for children. Yet, because of rising costs for housing, food, transportation, health care and education, and the two recessions we have suffered, even the most comfortable families have had to adjust their goals. This hearing is our first opportunity to learn first hand of the economic pressures and prospects American families face as they try to balance the family budget.

Surely, one must be sobered by the economic plight of our families. The American family, it is true, is changing. So are the conditions, particularly the economic conditions, in which we all live. It is my hope that, as the work of our Committee continues, the economic pressures facing today's families will come into clearer focus. I am certain that as that happens our policy debate and programs will benefit greatly. I am equally certain that if health care, housing, and college grow less available to the average American family, instead of more available, we will have failed in our roles as policy makers. The challenge before us is to expand the opportunities for families in the face of today's changing economic and social realities.

Mr. COATS. Madam Chairman, I do not, but I look forward to the testimony that we are about to hear. We have some very excellent witnesses, and I am ready to get on with the testimony.

Mrs. SCHROEDER. Any further opening statements?

With that, we can begin.

Our first panel is made up of Dr. Diana Pearce and Dr. Isabel Sawhill.

Would you like to come up to the table? We are very, very pleased you are here this Monday morning.

We will put your full statement in the record. I think we will start with Dr. Sawhill.

Both of you may testify and then we will ask questions.

Again, thank you for being here.

STATEMENT OF ISABEL V. SAWHILL, SENIOR FELLOW, URBAN INSTITUTE, CODIRECTOR, CHANGING DOMESTIC PRIORITIES PROJECT

Ms. SAWHILL. Thank you. It is a real pleasure to be here today and participate in the very important set of hearings that this committee is conducting.

I have been asked to talk about the relationship of employment to family income, a very broad topic. I will try to focus on three questions.

First of all, I would like to briefly review the importance of jobs and earned income to families of various types.

Second, I am going to talk some about losses in income that have been imposed on families by the recent recession, and also about the importance of a healthy recovery to families.

Third, I will make some comments on long-term trends in the composition of the labor force and in the structure of the job market that are likely to have implications for family life.

Let's start, then, with the contribution of earnings to family income.

In the Nation, the average family receives more than four-fifths of its income from work. The proportion varies a great deal, and in my prepared testimony I have a table which shows the way in which it varies.

Low-income families, for example, receive only 29 percent of their income from work and rely principally on income transfers.

When we talk about elderly low-income families, that is overwhelmingly social security income. Among the nonelderly low-income population, it tends to be predominantly public assistance, not surprisingly.

The higher up the income scale you go, the more you find that earned income is the overwhelmingly important contributor to total family income.

We have some notions that there is a top income group, living off of property income, but the statistics suggest that this is a very small amount of total income, even for the most affluent group.

Another way to put all of this is that it is those who are unsuccessful in the labor market who fall into the bottom income groups in our society, and whose needs are then met by Government transfer payments. No one is going to get rich off of Government transfer payments.

Turning next to the poverty population, itself, it may be useful to divide that group into three categories.

A first category is those who lack a wage earner in the family and are poor as a result: The elderly poor, the disabled, and perhaps more controversially, female-headed families with children under 6.

They represent two-thirds of the poverty population, they are groups that we generally do not expect to work, and, therefore, we do not expect them to have a lot of earned income.

A second group is those with a wage-earner who works intermittently or has spells of unemployment and, as a result, ends up with a poverty-level income. That group is about 25 percent of the poverty population.

The final group, which is only about 8 percent of the total, is people who work full-time, full-year, but do not earn enough, even working full-time, full-year, to move themselves and their families out of poverty.

Now, it is these second and third groups, obviously, that are most affected by what is going on in the labor market, and, of course, if we add to them all of the nonpoor or middle-class families, in our society, that is the group that is going to be impacted by the health of the economy, the strength of the labor market and labor market policies and programs.

I want, then, to focus mostly on this group and to ask my next question, which is: How have they been impacted by the recession?

Over the past 3 years, the Federal Reserve has been waging a war on inflation, with the result that the unemployment rate increased by 4½ percentage points between early 1980 and late 1982.

How much has this cost the Nation's families, and how was the burden shared among them?

I have estimated that the total cost for all families over this 3-year period is $171 billion in lost income.

Now, that represents a little over $2,000 per family, if the costs had been equally shared across all families in the country.

The fact is, of course, that the costs were not shared equally. Some people bore a disproportionate burden from this inflation fighting. Lower-income families have been more affected than higher-income families, and within income groups, male-headed families have been more affected than female-headed families. The latter finding is related to the fact that female-headed families are much more dependent on income transfers and males are more dependent on earnings; so it is the male-headed families that suffer disproportionately.

We also know that within the category of male-headed families, even after holding income levels constant, black families suffer more than white families.

The figures I have just cited, of $2,000 per family, represent the recession-induced losses in earned income ignoring the cushioning impact of taxes and transfers, but for every dollar that a family loses as a result of unemployment, the Government typically replaces about 34 cents.

That is the result of lower tax liabilities when income falls and unemployment insurance, food stamps, and other income transfers fill some of the income gap, so if we adjust the income losses for taxes and transfers, the average family only suffered a $1,400 drop in income as a result of the recession over these 3 years.

The distribution of losses across families is a little less unequal, once we take into account these safety net programs, but the general conclusion that I stated before still holds.

I should mention that my adjustment for taxes and transfers does not take into account the fact that there have been recent changes in tax laws and in transfer programs which suggest that the safety net may not be as intact as it used to be.

We know, for example, that in the 1974–75 recession, unemployment insurance tended to be received by about two-thirds of those who were unemployed, and the figure is now around one-half, I believe, so, because of changes in law and also because this recession has been a particularly deep and long one, there may not have been as much cushioning as there has been in the past.

Families also have a big stake in the strength of the economic recovery. I think everyone agrees that a recovery is underway now, but there is a lot of disagreement about whether it will be sustainable and how strong it will be.

Suppose that real GNP grows at an average rate of 5½ percent. That would cause the unemployment rate to fall to about 6 percent before the end of 1985.

On the other hand, suppose that real GNP only grows at an average rate of 3½ percent. That would mean it would be 1990 before we would see the unemployment rate falling to the 6 percent level. Those two different scenarios, a very healthy recovery and a rather weak recovery, have very different implications for family income, which I would like to spell out for you.

With the stronger recovery path, every family in the country would have an additional $283 in real disposable income per year between now and 1990 than they would if we could only manage the weaker recovery path.

Now, let me say something more about what the labor market is going to look like once the economy has recovered.

Even in a full employment economy, there are various barriers and disincentives that discourage work and that we need to be concerned about.

What the historical data indicate is that the dependency ratio (the ratio of people not working to people that are) was mainly a family affair in the past.

Increasingly in a modern society, dependency is a matter of some families supporting other families: in other words, some families paying taxes to provide various forms of assistance to other families. That kind of reshuffling of income is very desirable because of its equity and humanitarian implications, but I think, as Arthur Okun used to say, we do have the problem of a leaky bucket. If we start transferring too much income, we have to start worrying about losing some of that income because of disincentives to work.

Perhaps the two most important policy initiatives recently that stop up that leaky bucket somewhat are, first of all, the reduction of the so-called marriage penalty, and, secondly, the raising of the retirement age under social security.

These two initiatives are particularly important if you think about the size of the two groups that they impact on; mainly adult women and the retired. These are where the big changes in participation rates and in the composition of the labor force are occurring. The data appears in a paper that I wrote entitled human resources, which is just recently published, and I would like to submit that paper for the record, with your permission.

Mrs. **Schroeder**. Without objection.

[The information follows:]

In: Miller, G. William (ed.). Regrowing The American Economy. Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1983.

Isabel V. Sawhill

5

Human Resources

The performance of the American economy was disappointing during the 1970s. Prices more than doubled over the decade and productivity growth slowed and finally came to a virtual halt. Over 18 million additional jobs were created but employment did not grow as fast as the labor force with the result that unemployment was higher at each cyclical peak. Reversing these trends will require a sustained effort on many fronts, involving more investment, better coordination of fiscal and monetary policies, and more attention to the costs and benefits of alternative means of achieving public purposes. Success will also hinge on rethinking public and private strategies for developing, motivating, and utilizing human resources.

This chapter addresses four issues in the human resources area. First, based on current demographic projections, how many jobs

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Isabel V. Sawhill *is a senior fellow at The Urban Institute. Formerly she was program director for employment and labor policy there and was also the director of the National Commission for Employment Policy. Dr. Sawhill has written numerous articles and books and coedited* Youth Employment and Public Policy *and* The Reagan Experiment: An Examination of Economic and Social Policies under the Reagan Administration. *The author wishes to thank Diana Roth for her assistance with this chapter. The author also wants to acknowledge the comments received from a number of people, especially Francis D. Fisher, Eli Ginzberg, Sar Levitan, Steven M. Miller, Michael O'Keefe, James O'Toole, William Ouchi, Jerome M. Rosow, Frank W. Schiff, and Laurence Steinberg. The findings and conclusions are the author's alone.*

are likely to be needed, and for whom, over the next several decades? Second, where will the jobs be and how are shifts in demand and new technologies likely to affect the industrial and occupational structure of the labor force? Third, what kinds of education and training will be needed to prepare the labor force for these changes and improve the rate of productivity growth? Finally, can new institutional mechanisms be developed that give workers more of a stake in the economic success of their enterprises and the economy as a whole, thereby reducing inflationary wage pressures and resistance to technological change? The answers to this last question are both the most difficult and the most important. In the absence of a means of controlling inflation that relies less on maintaining high levels of unemployment, economic growth is likely to be weak or sporadic. Similarly, the technological preeminence that will be needed to sustain advances in productivity and standards of living in an increasingly competitive world economy could be frustrated by popular concerns about job security and technological unemployment.

The New Demographics

In any society there are some groups deemed too old, too young, or too incapacitated to work. Others have been socially exempted from regular employment by their involvement in schooling, homemaking, or military service. Unless they have considerable savings, these groups must be supported by the working population. Such support may be provided directly (through the earnings of another family member) or indirectly (through taxes and transfers). Two trends have been in evidence in most industrialized countries: (1) a shift in the composition of the "dependent population" from adult women to younger and older males and (2) a shift in the support of this population from private (family) to public sources.

In the United States at the beginning of this century, about 31 percent of the entire population was in the labor force. By midcentury this ratio had risen to 42 percent, and by 1980, 47 percent, with a still higher ratio predicted for the year 2000. Offsetting this tendency for a higher fraction of the population to be employed has been a decline in nonmarket economic activity (e.g., home production of food or clothes) and in lifetime hours worked per person.

The composition of the nonworking population has shifted, especially since World War II. A far larger proportion are over sixty-five, and fewer are adult women. These changes in composition are the direct result of the increased tendency for women to work outside the home and for men to retire at earlier ages (Table 1).

TABLE 1. CIVILIAN LABOR FORCE PARTICIPATION RATES

	Male				*Female*			
	Total 16+	*16–24*	*25–54*	*55+*	*Total 16+*	*16–24*	*25–54*	*55+*
1950	87	77	96	68	34	43	36	19
1980	78	74	94	45	52	61	63	23
2000	75	75	92	37	56	72	72	19

Sources: Compiled from: 1950, U.S. Census; 1980, Bureau of Labor Statistics; 2000, Bureau of Labor Statistics midlevel projections from U.S. Census data, unpublished.

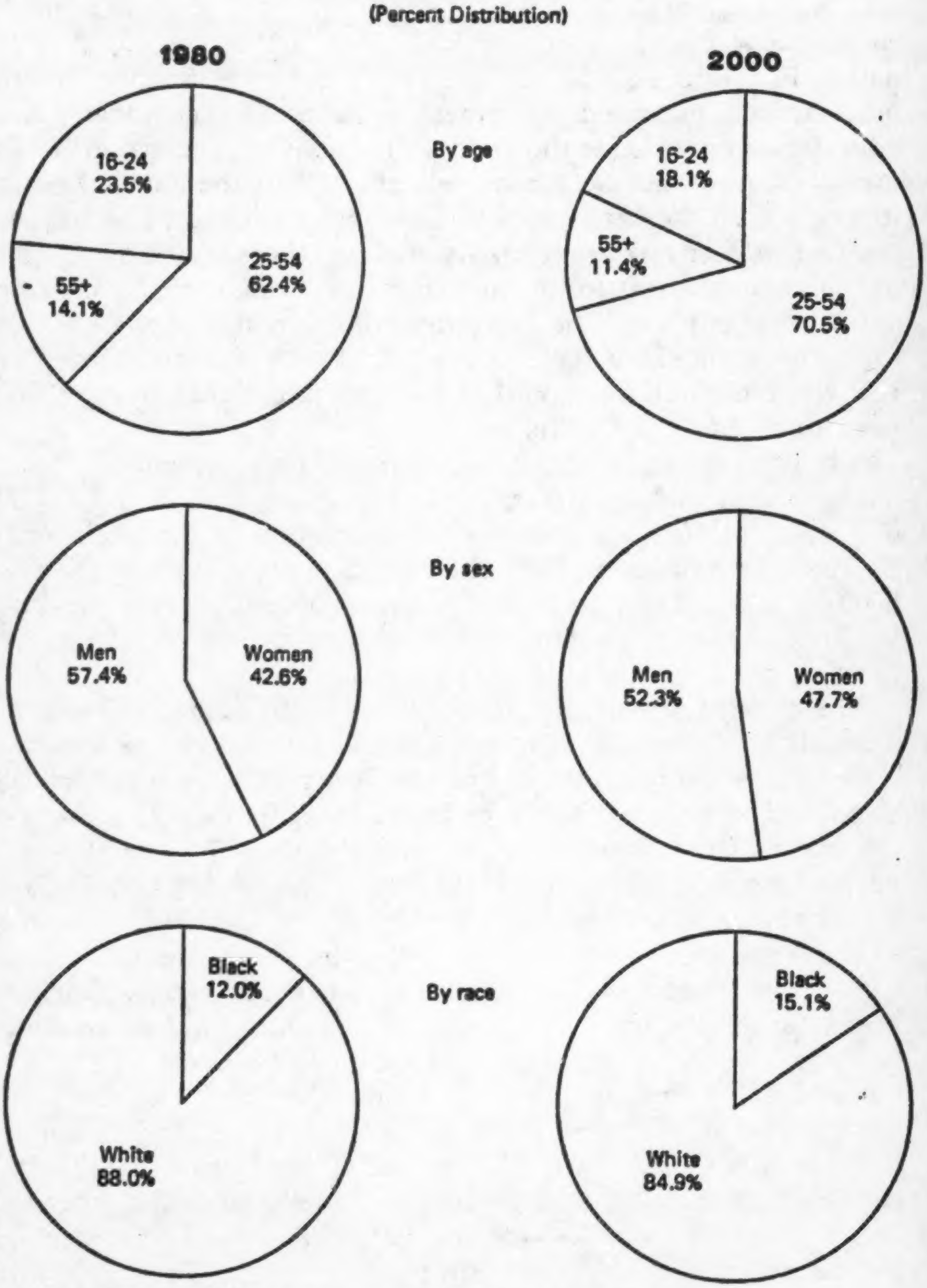
Over half of all adult women and 62 percent of those under age fifty-five are now in the labor force. These proportions are likely to continue to increase as successive generations of younger women with more "liberated" attitudes enter and move into their adult years. The shift in attitudes has been dramatic and is not likely to be reversed. In 1968, 62 percent of young women between the ages of fourteen and twenty-two reported that they planned to be housewives. By 1979, the proportion had fallen to 20 percent. Other factors that may contribute to more employment among women include rising education, smaller families, more divorce, and the need to have two paychecks to purchase the ever-elusive "American dream." Elsewhere Kristin Moore and I have discussed the implications of the increased employment of women for home and family life. Suffice it to say here that the growing number of two-career families is likely to generate new consumption patterns and demands for more flexible working hours and for greater public subsidization (through tax credits or otherwise) of day care or preprimary education. The consequences of greater female employment for the economy include a higher measured gross national product (GNP) and the tax revenues to finance, among other things, extended retirement benefits for the elderly and educational benefits for the young. Productivity, as conventionally measured, may have been adversely affected by the entry of older, inexperienced women into the labor force in recent years, but younger women are increasingly making the same kind of permanent commitment to the labor force as young men. In any case, any adverse effect will be more than offset in the next decade by the aging of the labor force as the baby boom matures. Moreover, real economic welfare should rise to the extent that women have been underemployed at home.

Almost as revolutionary as the increased employment of women has been the trend toward earlier retirement among men. In 1950, 63 percent of men, aged fifty-five or over, were in the labor force. By 1980 the proportion had fallen to 45 percent, and by the year 2000, it is projected to be 37 percent. Older men are working less because of greater affluence and more generous Social Security benefits, pensions, and disability insurance.

The amount of economic dependency in the future will depend critically on the extent to which older Americans choose to work. The fiscal squeeze which a graying America is putting on the Social Security System will likely lead to shifts in policy that encourage more work effort among the elderly. The age at which people become eligible for Social Security, the level of benefits, and the extent to which benefits are reduced for those who continue to work past the age of eligibility all affect retirement decisions. Changes in these policies, together with other factors (such as greater longevity, improved health, or continuing inflation) could easily reverse the present trend toward earlier retirement.

Based on one reasonable set of assumptions about future labor force participation rates, Figure 1 compares the composition of the work force in the year 2000 to the current situation. Overall, the labor force will be 27 percent (or about 29 million people) larger than it is today. It will also be older, with the average age increasing from thirty-five to thirty-eight years. Finally, it will have a higher proportion of women and ethnic minorities.

Fig. 1. Composition of the Labor Force, 1980 and 2000



Sources: **U.S. Bureau of Census and U.S. Bureau of Labor Statistics.**

Job Opportunities and the Challenge of Technology

Over the next two decades, the economy will need to generate enough additional jobs to absorb both a growing labor force and the workers whose jobs are displaced by technology and other advances in productivity. If labor productivity (output per person) were to advance by a healthy 2 percent a year, we would need to produce 64 million new jobs between 1980 and 2000—about half of these to provide opportunities for workers potentially "displaced" by the assumed growth in productivity and about half to accommodate the projected growth in the labor force. To achieve this goal, GNP would need to grow at a rate of 3.2 percent a year, on average, considerably higher than the 2.4 percent growth rate achieved between 1973 and 1980 but a little lower than the 3.5 percent rate achieved for the entire post–World War II period. Greater productivity advances or a higher labor force participation rate would require stronger GNP growth than this or else a willingness to tolerate more unemployment than in the past. The latter is always a possibility, given continuing fears of inflation and the growing public perception that unemployment creates little hardship, because of the greater availability of jobless benefits and other sources of income support for the unemployed. But tolerating higher unemployment entails producing fewer goods and services and accepting lower standards of living.

There is, of course, a rate of unemployment that represents some frictional or structural minimum not amenable to a macroeconomic solution. Two unemployment rates need to be distinguished in this connection. The first is the unemployment rate at which inflation begins to accelerate. The second is the unemployment rate at which there is an overall balance between demand and supply in the labor market. In recent years, such factors as rising oil prices, increasing payroll taxes, and the productivity slowdown have caused inflation to accelerate long before there was excess demand in the labor market and have led some economists to conclude that the "full employment unemployment rate"—defined as the rate needed to prevent accelerating inflation—has risen to 7 or 8 percent. But this is simply the amount of unemployment that would be needed to offset the inflationary impact of such "supply shocks" and in no sense represents full employment. In absence of such supply shocks, and given an expected decline in youth employment as the baby boom generation matures, the macro managers should be able to safely aim at an unemployment rate of between 5 and 6 percent in the future. Since unemployment has been higher than this since the end of 1979, the economy will need to grow at a faster than average pace during the 1980s before it reaches and then advances along its full-employment growth path. Even the most optimistic economic projections suggest that it will not reach this full-employment level before the second half of the 1980s.

Assuming that an adequate number of total jobs is generated, where will these jobs be? The answer depends on (1) future expenditure patterns which will cause some sectors of the economy to expand more rapidly than others and (2) shifts in technology or other factors which affect the amount of labor needed to satisfy that demand.

Some of the shifts in consumer, business, and government purchases that can be expected in the future include more spending for defense goods (because of changing national priorities), more for health care and less for education (because of the aging of the population), and more for consumer durables and recreation (because of rising incomes). Based on these projections of demand, the Bureau of Labor Statistics (BLS) estimates total output and employment by detailed industry (making certain assumptions about industry productivity growth and the extent to which each industry utilizes inputs from other industries). These industry projections are then translated into a set of occupational projections based on current occupational staffing patterns within industries. The resulting estimates are clearly subject to considerable error. Nevertheless, they provide some indication of where the jobs of the future will be (Table 2):

1. About 50 percent of all workers now hold white-collar jobs, up from 36 percent in 1950. These jobs will continue to grow more rapidly than other jobs over the next decade. However, clerical and managerial jobs will grow somewhat more slowly than sales and professional jobs.
2. About 33 percent of the work force is currently in blue-collar occupations, down from 41 percent in 1950. Labor-saving technological change will mean a slower-than-average growth rate of jobs in unskilled and semiskilled operative and laborer occupations. The demand for skilled craft workers should remain strong.

3. Only about 15 percent of all workers are currently employed in the service sector, but this has been, and will continue to be, the fastest growing source of new jobs.
4. Three percent of all workers are now employed in farming, and further declines are anticipated.

TABLE 2. THE JOB OUTLOOK

	(Employment in thousands)						*Percent Change*	
	1950		*1980*		*1990*			
	Number of Workers	*Percent of All Workers*	*Number of Workers*	*Percent of All Workers*	*Number of Workers*	*Percent of All Workers*	*1950 to 1980*	*1980 to 1990*
White collar	21,601	36	51,436	50	62,753	50	138	22
Blue collar	24,266	41	32,435	32	39,018	32	33	20
Service	6,180	10	15,547	15	19,668	16	151	26
Farm	6,953	13	2,689	3	2,309	2	–61	–14

Sources: Compiled from Bureau of Labor Statistics, *Occupational Outlook Quarterly*, Spring 1982 and Bureau of the Census, *Historical Statistics, Colonial Times to 1970*, Series D 182–232.

Some observers are predicting that a new industrial revolution, centered around computer-based technologies and microelectronically controlled equipment (e.g., robots, word processors), will take place during the next thirty years and lead to widespread displacement of less skilled workers by machines. Assembly line workers and low-level clerical employees would likely be the most affected.

Estimates of the number of industrial robots in the United States suggest that they are being introduced at a rapid pace but are still performing a small proportion of all manufacturing jobs. (The word robot was adopted from the Czech word *robota*, meaning serf. A robot differs from other automated equipment in that it is computer-controlled and can be reprogramed to perform a variety of tasks.) There are now about 5,000 to 6,000 robots in the U.S., up from an estimated 200 in 1970 and 2,000 in 1975. Some financial analysts and industry spokespersons predict there may well be over 100,000 by 1990. Assuming one robot replaced three workers (because the robot can work all three shifts), this would still be less than 3 percent of all production jobs in manufacturing. Based on a survey of firms, Robert V. Ayres and Steven M. Miller in their study *Robotics: Applications and Social Implications,* suggest that it might be technologically feasible to use the next generation of robots (those with rudimentary vision and other sensory capabilities) to replace as many as 4 million factory workers or 3 to 4 percent of all jobs in the economy within the next twenty years. But this is a very uncertain estimate which does not take into account whether this degree of automation would be economically profitable.

In certain industries, firms, and types of work there will be a much greater concentration of robots than the above averages would imply. About half of all robots are currently employed in the auto industry–largely in painting and welding operations–and almost all of the rest are employed in three other durable goods industries (fabricated metals, machinery, and electrical equipment). These industries are heavily concentrated in the Great Lakes states, New York, and California. Some individual firms have been particularly aggressive in their use of robots. For example, General Motors hopes to install at least 14,000 robots by 1990. The economic incentives are compelling. In 1981, it cost about six dollars an hour to employ a robot in the automotive industry. This compares to a labor cost of seventeen dollars an hour in the same industry. These savings mean that investment in a robot typically pays for itself in a year or two. If, as expected, the price of robots falls and the cost of labor rises, automation will become even more attractive.

On the office front, sales of word processors have been rising by 50 percent a year since 1975, but the more fully automated office of the future with an interconnected system of desk-top terminals or "work stations" has been slow to arrive. While most users believe that word processors and other automated office equipment improve employee productivity, there is no firm evidence as yet to support this claim.

While the foregoing discussion suggests that new technologies are being introduced at a rapid pace, fears of massive dislocations and widespread unemployment hardly seem warranted. Much of the problem of displacement could be taken care of by normal attrition. In manufacturing, between 25 and 35 percent of the labor force quits voluntarily, retires, or is discharged each year.

Moreover, both history and economic logic suggest that rapid productivity growth produces more rather than fewer employment opportunities. In 1770 Britain's textile industry was mechanized, and by 1800 employment in that industry had increased by 350 percent. Similarly, after Henry Ford introduced assembly line production of the automobile in 1910, employment grew by 450 percent over the next ten years. Between 1955 and 1976 employment rose three times as fast in five high-technology industries as it did in all other industries, according to the Machinery and Allied Products Association. Other studies of the effects of automation on employment in such industries as aluminum, autos, foundries, metalworking machinery, and electric and electronic equipment have come to similar, though somewhat less optimistic, conclusions.

The reason for these favorable outcomes is that lower costs and prices due to technological advances often stimulate demand and expand market shares for those in the forefront of change. For example, Japan currently has about three times as many robots as the United States, and this may be one reason for its inroads into U.S. markets in recent years. Just as no individual firm can afford to ignore the latest cost-saving techniques, no country can fail to maintain its competitive edge in world markets.

Automation not only promises to increase employment opportunities but could also support higher wages as industry becomes more capital intensive. In addition, the use of robots will eliminate the boring, unpleasant, and dangerous jobs that are unpopular with workers.

Although the benefits of technology are substantial, there will be costs imposed on those individuals whose jobs are eliminated and a need for public or private response to the problems. But, as discussed below, this is only one of the challenges that the education and training system must meet over the coming decades.

Education and Training

The United States spends somewhere in the neighborhood of $220 billion annually for education and training (Table 3), or 8 percent of GNP (1980 dollars). This compares with $296 billion for plant and equipment investment (11 percent of GNP).

TABLE 3. TOTAL EXPENDITURES ON EDUCATION AND TRAINING IN THE UNITED STATES

	Estimated Expenditures	*Percent*
	*(Billions of Dollars)**	
Total	220	100
Elementary and secondary education	107	49
Postsecondary education	59	27
Private business and industry	30	13
Federal employment and training programs (all agencies)	14	6
Federal government, civilian, and military training	10	5

* Most figures are for 1980 but the estimates come from different sources and some—particularly those for business and industry expenditures—are only rough guesses.

Sources: Compiled from National Commission for Employment Policy, *Seventh Annual Report,* Chapter 4 and U.S. National Center for Education Statistics, *Digest of Education Statistics.*

About half of the expenditures are for elementary and secondary education (90 percent of which is publicly financed, mostly with state and local dollars). The next largest chunk is for higher education, followed by business and industry expenditures on training (the latter being by far the most difficult to estimate). Finally, as a relatively small component of the total, are the federal government's outlays on such programs as CETA (the Comprehensive Employment and Training Act), WIN (an employment program for welfare recipients), and the Employment Service (a public employment agency). The federal government also provides substantial training to its own civilian and military employees. In 1980, for example, the military spent $8 billion on training, or as much as the entire CETA program.

What have these investments produced? We first examine education and then the federally-supported training programs.

EDUCATION

The overall education level of the population has risen substantially since World War II. The illiteracy rate declined from 3 percent in 1947 to 0.5 percent in 1979. Median school years completed by those twenty-five and over rose from 9.3 years in 1950 to 12.5 years in 1980.

In addition to its obvious and important noneconomic benefits, education contributes to economic growth in a number of ways. It enables individual workers to perform on the job. It produces new scientific knowledge and aids in the rapid diffusion or application of that knowledge to the production process. And it facilitates adjustment to change since educated workers are more adaptable and more easily retrained and educated managers are more receptive to new ideas.

Historically, increased education has been an important source of productivity growth. As shown in Table 4, it accounted for 20 percent of the growth of national income per person employed between 1948 and 1973. Since 1973, this particular measure of productivity has actually fallen. However, in the absence of a continued rise in the educational qualifications of those entering the private business sector over this period, the decline in productivity would have been even greater. During both periods, investment in education contributed more than investment in plant and equipment and other forms of tangible capital to productivity growth.

TABLE 4. CONTRIBUTIONS OF EDUCATION TO THE GROWTH OF PRODUCTIVITY IN THE UNITED STATES

	Average Annual Percentage Changes for Nonresidential Business Sector	
	1948–1973	*1973–1981*
National income per person employed	2.5	–0.2
Education	0.5	0.6
Capital	0.4	0.2
All other	1.6	–1.0

Source: Based on information from Edward F. Denison, "The Interruption of Productivity Growth in the United States," paper prepared for Conference of the Royal Economic Society, London, July 22, 1982, Table 2.

The impact of education on growth is measured by examining changes in years of schooling completed by the labor force weighted by the earnings associated with different levels of education. Thus, as long as educational attainment is rising because each age cohort entering the labor force is somewhat better educated than previous generations, the contribution of education will be positive. It is possible, however, that this increase in the quality of education has been at least partially offset by a decline in quality. People may be going to school longer but learning less each year.

This hypothesis is supported by evidence from various standardized tests as well as by complaints from employers and college teachers about recent school graduates. Until 1981, Scholastic Aptitude Test (SAT) scores had been declining since the mid–1960s. The average verbal score dropped 13 percent (from 479 in 1963 to 424 in 1980), and the average math score dropped 8 percent (from 502 to 466). Some, but not all, of the decline is due to the broader cross section of the population taking the test.

Similarly disquieting evidence comes from periodic surveys of the educational achievements of a national sample of students at ages nine, thirteen, and seventeen (the National Assessment of Educational Progress). Some gains have been scored by the youngest age group, but among seventeen-year olds, there have been declines in mathematical skills, in reading comprehension, and in knowledge of science and social science since the tests were first administered in the early 1970s. Some illustrative findings from recent surveys are:

1. About 25 percent of seventeen-year olds do not know the number of quarts in a gallon, the number of ounces in a pound, and the number of feet in a yard.
2. Forty percent do not know what percent thirty is of sixty, that more than 100 percent of a number is greater than the number itself, or how to calculate the area of a square when the length of only one side is given.
3. More than 50 percent could not name their congressperson or one of their senators, and 20 percent did not know that senators are elected.
4. Only 44 percent of seventeen-year olds could successfully combine four short sentences into one longer one.

How do American students compare with those in other countries? In a sixteen-nation survey of educational attainment, conducted by the International Association for the Evaluation of Educational Achievement, American secondary school students ranked third from the bottom in reading and in science and ranked the lowest in math among industrialized countries. It should be noted that at age fourteen, American students perform comparatively well. Their poor showing at the secondary level reflects, in part, the larger proportion of less able students who complete secondary school in the United States.

These declines in American performance have been attributed to a variety of factors in addition to the broadening of educational opportunities to include less able students. Often cited are television and less parental supervision, an insufficiently demanding curriculum at the secondary level, declining college entrance requirements and admission standards, competing demands on students' time (including employment), and the qualifications of teachers. Some of the relevant facts are:

1. A majority of seventeen-year-olds spend less than five hours a week on homework and watch at least seven hours a week of television.
2. Over 50 percent of all high school juniors and seniors are employed at any one time during the school year. While working has some benefits, recent evidence suggests that spending more than fifteen to twenty hours at work tends to impair school performance.
3. About two-thirds of U.S. colleges and universities are now providing remedial reading and writing courses.
4. Publishers have been forced to water down and simplify the material in college textbooks.
5. College seniors majoring in education have lower SAT scores than students in all other fields with the exception of office-clerical and vocational-technical fields. The scores of education majors declined over the past decade as high-ability females and minorities opted for other careers. Teacher verbal ability has been clearly linked to student test performance.
6. Teacher salaries more than kept pace with other salaries between 1960 and 1978. Currently, the average secondary school teacher earns $18,000. This compares to $17,000 for carpenters and $21,000 for postal clerks. More importantly, there is little earnings progression with increased experience and little differentiation of rewards among those with different abilities, responsibilities, or competing opportunities. Math and science teachers, for example, are deserting the schools for more lucrative jobs in industry. Able teachers in all fields reportedly leave because of their dissatisfaction with the bureaucratic organizations of the schools, classroom violence, and other working conditions.

The solutions to the problems in our educational system are not self-evident. More than an infusion of new money is needed. Education expenditures per student enrolled in elementary and secondary school doubled in real terms between 1960 and 1975 and then leveled off at the same time that test scores were declining. Educational experts seem to be unsure about what policies to recommend, but some reform of the curriculum (already underway in some high schools) and of the basic organization of schools and structure of the teaching profession may be needed. Setting higher standards and testing competencies against these standards could also help.

One potentially interesting, though largely untested, idea is the introduction of more computers into the classroom. Computer-assisted instruction has a number of putative benefits. Because it is interactive, it motivates students and actively engages them in the learning process. It corrects their mistakes in a nonthreatening manner. It can be paced to accommodate individual differences in ability but use software incorporating the most sophisticated knowledge, and up-to-date pedagogical techniques, with built-in performance standards. It can free teachers to help students develop critical problem-solving skills and humanistic values. And it can help to develop computer literacy—the essential "fourth R" in a technologically advanced nation. At present, the bottlenecks appear to be (1) cost, (2) inertia, (3) the insecurity of teachers unfamiliar with the new technology, and most importantly (4) a lack of high-quality software. Unless schools move rapidly, there may soon be more computers in the home than in the classroom, increasing the already extensive educational advantages of the middle class and creating a nation of video game addicts rather than a new generation of Nobel Prize winning scientists.

It appears that the era of rapidly expanding educational attainment is over. Past progress was sustained by an increase in the proportion of each successive birth cohort that entered and then graduated from high school. Because such a high proportion of young people now graduates from high school, further significant increases in educational attainment will only come with higher rates of college attendance. An issue for the coming decades, then, is whether universal college education is desirable and who should pay for it.

The current and projected surplus of college-trained youth will undoubtedly affect how this issue is resolved. During the 1970s, 20 percent of college graduates took jobs that traditionally have not required a college degree. As a result, the proportion holding professional and technical occupations fell from 67 percent in 1970 to 55 percent in 1980 as employers raised their hiring standards in nonprofessional occupations and job seekers were forced to lower their expectations. The BLS projects a similar condition of oversupply and occupation downgrading during the 1980s, even under relatively optimistic assumptions about economic growth. In short, although many young people will continue to seek a college education for its many noneconomic benefits and the competitive edge it provides in vying for entry-level jobs, it is questionable whether society should encourage still greater participation in higher education. An alternative strategy would be (1) to improve the quality of existing education, especially at the secondary level, and (2) to provide more mid-career education and training opportunities for adults with specific occupational and career objectives. The large influx of mature students into higher education institutions in recent years (38 percent are now over twenty-five) attests to the growing needs and interests of this group.

TRAINING

As we have seen (Table 3), most training in the U.S. is provided by private employers. Federally supported training programs have been on a relatively small scale and heavily focused on the disadvantaged. As Eli Ginzberg has put it, they represent "second-chance" opportunities for low-income minority youth, welfare recipients, and others with special needs. Critics have labeled these programs "make-work" or "income maintenance in disguise."

Some are now urging that the federal government expand its role to provide more training opportunities for all workers, not just the disadvantaged. What are the arguments for and against federal involvement in serving various groups, and what is the evidence that this involvement has been a good use of taxpayer dollars?

Assisting the Disadvantaged—Assisting the disadvantaged has been an important objective of federal employment and training efforts ever since the mid–1960s and became the primary objective after the reauthorization of CETA in 1978. New legislation enacted in 1982 would not change this basic orientation but would emphasize different forms of assistance and more private sector involvement. In particular, there is now less interest in providing income transfers through temporary work experience programs and more on improving long-term earnings and employability via training. This shift is consistent with evidence indicating that CETA work experience and public service employment have been less cost-effective than classroom and on-the-job training programs. Similarly, relatively resource-intensive remedial training programs have proven more beneficial than summer job programs in improving the long-term earnings of disadvantaged youth. In short, although training programs tend to be more expensive per person served, they also tend to yield a higher rate of return for the participants and the taxpayer.

One program which has been quite effective is the Job Corps, a program designed to provide training for disadvantaged, hard-to-employ youth. After a long process of development, the program appears to have found a successful means of improving basic literacy as well as job skills. The social rate of return for program participants is estimated to be about 45 percent. Sixty percent of the total benefits takes the form of increased output and earnings while most of the rest is attributed to reduced criminal activity. As further evidence of its success, the program's training techniques are being adopted by the military and other institutions dealing with disadvantaged youth.

A second program which has been partially successful in dealing with the disadvantaged is the Supported Work Demonstration Project. This project focused on four hard-to-employ groups: welfare mothers (women receiving Aid to Families with Dependent

Children—AFDC), problem youths, exaddicts, and former offenders. While the value of the program for youth and for exoffenders was negligible, exaddicts and, especially, AFDC recipients made impressive gains. The social rate of return for the AFDC group exceeded 100 percent. In other words, the benefit-cost ratio was well over two, a rate of return far exceeding the rate of return on a college education or on most types of tangible investment.

In recent years, "manpower programs" for the disadvantaged have gotten a bad name. In general, they have had overly ambitious and often conflicting objectives. They were sometimes poorly designed to achieve these objectives, and they were often poorly managed. The preceding examples demonstrate their potential effectiveness. Their image has been tarnished by an unwillingness in some quarters to separate the good from the bad or to admit that some programs have failed. But by the same token, there are success stories here upon which to build a firmer foundation for the future.

In the future there could be less commitment to programs for the disadvantaged because of a scarcity of funds and a belief that there are better ways to invest the federal training dollar. Shortages of engineers, scientists, and other technical personnel are creating bottlenecks for high-technology industries, and it is hardly realistic to assume one can train many high school dropouts or welfare mothers to become electrical engineers. Thus, relieving such shortages could necessitate a reallocation of existing federal training subsidies to technical education programs. There are three arguments which can be made against such a reallocation. The first is that we do not know for sure whether investments in training the more advantaged for high-skill occupations have higher payoffs for society than, say, making a low-income woman heading a family more economically independent. Second, assuming training for the more advantaged does have a higher payoff, equity considerations might still dictate preferential treatment for the most needy. Third, some (limited) incentives exist for state governments and large employers to provide training in skill-shortage occupations, but few profit-making organizations or local areas want to compete to provide services to, and thus become a haven for, the most disadvantaged. If this responsibility is not borne by the federal government, it may not be met at all.

Assisting Dislocated Workers—The argument for assisting dislocated workers is based on the possible hardship that plant shutdowns or layoffs may impose on individuals, their families and communities, and on the need to have a mechanism to induce workers to accept technological and other kinds of industrial change. In the absence of such a mechanism, there could be strong political pressures to bail out weak industries, to discourage imports, and to introduce more restrictive work practices or job protection schemes.

Past adjustment assistance efforts have been fragmented (there are some twenty-two different employee protection programs) and have emphasized cash benefits rather than retraining or other employment services. Under the largest of these programs (trade adjustment assistance), as much as 75 percent of the benefits has been paid to those who were temporarily laid off or put on short hours rather than to those suffering a permanent job loss. In short, trade adjustment assistance has been a form of extra generous unemployment insurance paid to just one group of workers, whose needs may be no greater than those of other unemployed workers.

The fact that past programs have been poorly designed is not an argument for ignoring the problem. The benefits of new technology and of a free trade economy are widely shared, but the costs are highly concentrated. This is the rationale for providing some form of worker adjustment assistance at public expense. Alternatively, the problem could be resolved within the private sector. Many union contracts call for employer-financed training, retraining programs, and provision of advance notice of layoffs or plant closings. If properly designed and administered, such programs need not be very expensive since the problem is not nearly as massive as many have assumed. According to an Urban Institute study by Marc Bendick and Judith R. Devine, dislocated workers —defined as those previously employed in declining industries who had been looking for work for at least eight weeks—in March

1980 numbered about 400,000 or about 6 percent of the 6.4 million unemployed at that time. They are typically semiskilled operatives who formerly worked in autos, textiles, steel, lumber, or other traditional manufacturing industries located in the Northeast and Midwest.

Upgrading the Skills of the Labor Force—It can be argued that as long as workers are free to move between employers and geographic areas, private firms and local governments will underinvest in education and training. In addition, the maturing of the baby boom, the entry of many adult women into the labor force, and the growth of new industries are likely to create the need for more adult training and retraining programs in the future. Finally, increasing levels of education and general affluence may make the labor force much more receptive to such opportunities and willing to share in the financing of them if mechanisms can be developed to make this possible. For example, some portion of payroll taxes might be earmarked for a "human resource investment account" which would entitle experienced workers to partake in a variety of on-the-job or classroom training activities throughout the life cycle. The federal government would need to provide leadership in developing such a plan and could contribute a portion of the funding. Alternatively, all of the financing could be provided by individuals and business firms.

Managing Human Resources

Human resources are both means and ends. As workers, individuals determine what can be produced. As consumers, they enjoy the fruits of that production. As members of social and political communities, they care about how work is organized and how income and status are distributed. Perceptions about the fairness and adequacy of the reward system, in turn, affect worker productivity.

By recognizing the human element in human resources and involving workers more in decision making, the Japanese are purported to have had more success than their western counterparts in motivating employees and sustaining rapid advances in labor productivity. (During the decade of the 1970s, labor productivity increased about twice as fast in Japan as in the U.S., although the *level* of U.S. productivity is still higher.) According to William Ouchi, the ingredients of the Japanese system include:

1. *Lifetime employment.* For the 35 percent of the work force in large companies and government offices, virtually all employees are hired upon school graduation and remain with the organization until age fifty-five. Under this arrangement, management has an incentive to invest in worker training, and employees care more about the success of the company.
2. *Slow evaluation and promotion.* Formal evaluation, promotion, and hierarchical distinctions of rank and salary are less important than peer group pressures in securing high levels of performance. Every worker is a member of a team or group which provides informal rewards and sanctions to its members.
3. *Nonspecialized career paths.* Employees typically learn many different jobs within the same organization and become company-oriented rather than skill-oriented over their careers.
4. *Implicit control mechanisms.* Because each employee knows what the general objectives, style, and philosophy of the organization are, there is less need for establishing explicit performance standards or targets.
5. *Collective responsibility.* The Japanese recognize that production requires a team effort and resist attempts to allocate credit or blame for results among individuals.
6. *Holistic concern for people.* Work life is not segregated from other aspects of life. There is greater socializing among employees and between workers and managers.

Although these six characteristics may reflect, and be particularly appropriate to, Japanese cultural traditions, Ouchi was able to identify a number of American companies with similar characteristics (IBM, Procter & Gamble, Hewlett-Packard, Eastman Kodak). He terms companies with this more democratic and employee-oriented management style "Type Z" organizations to be contrasted with the more conventional American or "Type A" organization. Within Type Z organizations there is sufficient socialization to the common goals of the organization that extrinsic rewards, close supervision, and bureaucratic rules are less necessary, according to Ouchi. However, he also points out that Type Z organizations have their weaknesses. They may be less innovative, be less open to new ideas, have a less "professional" staff, and be more culturally homogeneous—often excluding women, minorities, and others who are "different." In fact, many observers have gone further and suggested that the attributes of such organizations are in basic conflict with such American values as cultural diversity, independence, individualism, and privacy.

Whatever the merits of Type Z organizations, experimentation with new management styles including quality of work life (QWL) programs, quality circles, profit sharing, union representation on boards of directors, and other participative schemes are now very much in vogue in the United States.

According to Richard Walton, a professor at the Harvard Business School, experiments with these new techniques have been undertaken by a substantial minority of Fortune 500 companies, including such leaders as General Motors, Exxon, General Foods, TRW, Cummins Engine, Citibank, and Prudential Insurance. Unions, after initially being concerned that such schemes were an attempt to "get more out of the workers" without providing compensating rewards, have become somewhat more supportive in recent years.

Is this new enthusiasm for workplace innovations warranted or is it simply a fad? According to the advocates of more worker involvement in decision making, the benefits include less turnover and absenteeism, more satisfied and productive employees, and higher quality products. Rigorous evidence for these propositions is difficult to obtain, but studies by the Work in America Institute and others suggest that when programs are carefully implemented, the claims are justified. One of the most successful experiments, continuously cited in the literature, is General Motors's plant in Tarrytown, New York, which went from being one of the least productive of their plants in 1970 to one of the most productive in 1979. The union reports that absenteeism is down from around 7 percent to between 2 and 3 percent and that the number of grievances on file went from over 2,000 to 32.

Not all experiments have been similarly beneficial. According to Professor Walton, James O'Toole, and other experts, those most likely to succeed are those which entail top management commitment to produce fundamental and long-term changes and that give equal weight to improving employee satisfaction and rewards, on the one hand, and productivity and company performance, on the other. Based on the experience of about three dozen projects, Walton believes the average effectiveness of innovative work systems is higher than the average of more conventionally managed, but otherwise comparable, plants. However, he notes that there is a normal distribution of successes and failures around the average.

One way to give workers more of a stake in their enterprises and to secure their cooperation in improving productivity and product quality is through financial incentives, such as profit sharing, bonuses, and employee stock ownership plans. In Japan, workers receive semiannual bonuses, and these bonuses are linked to company profitability. An unintended, but potentially important, consequence of such "gain-sharing" systems is more flexible wages and prices and less unemployment. Currently, most of any reduction in overall demand—whether due to the normal workings of the business cycle or a conscious policy of monetary restraint aimed at curbing inflation—results in lower production and employment, rather than in more moderate wage and price rises. The more inflexible wages and prices are, the more painful and costly it is to use monetary restraint to reduce inflation. Under current institutional arrangements, it is estimated that the economic slack required to eliminate the double-digit inflation that existed in early 1980 would cost $1.2 trillion (an average of $15,000 per family) in lost production and income during the first half of the decade. By making wages and prices more flexible, the spread of compensation systems linking pay to economic performance could eliminate some of these costs.

To encourage such institutional reform, economist Daniel Mitchell has suggested that organizations be provided with tax incentives to introduce various forms of gain sharing that would make wages more sensitive to the health of the employer, the industry, or even the national economy. He argues that, unlike wage-price controls or other incomes policies, gain sharing is compatible with the existing system of decentralized collective bargaining and multiyear contracts in the United States. In addition to being tied to the cost-of-living through an escalator clause, under a gain-sharing system, wages would be automatically linked to an indicator of the overall economic health of the enterprise or the economy. Thus, institutional reforms affecting the way work is organized and rewarded have the potential to both improve productivity and the short-run trade-off between inflation and unemployment.

Conclusion

Reviving economic growth, reducing unemployment, and controlling inflation are high on the nation's agenda. There are a number of areas where improvements in the utilization, development, and management of human resources could contribute to these objectives.

First, barriers and disincentives to full participation in the labor force can reduce the proportion of the population that works. This not only creates a higher than necessary dependency ratio but may also require more taxes—which have their own disincentive effects—to support the dependent population. In terms of sheer numbers as well as sensitivity to public and private policies that encourage or discourage work, two groups stand out: adult women and older Americans. In particular, the Social Security System and institutional arrangements that make combining parenthood and work difficult bear scrutiny. Of course, the utilization of these groups will depend as much on the growth of demand as it does on incentives to work.

Second, the job opportunities of the future will be predominantly and increasingly in white-collar or service occupations. They will not necessarily require more people with college degrees —in fact, a glut of college-educated workers is currently forecast; however, good secondary school preparation seems essential. Recent declines in student performance at the high school level should be a cause for concern.

Third, fears that a new industrial revolution is going to produce widespread technological unemployment seem unjustified. The benefits of maintaining technological preeminence are many, and while this imposes severe costs on particular individuals and localities, in the aggregate these seem both modest and manageable through the use of appropriate adjustment assistance policies.

Fourth, although not all programs have been equally valuable, a continuing federal commitment to assist the disadvantaged to become more economically independent seems like a worthwhile investment of federal funds.

Fifth, federal leadership in assuring the availability of privately financed mid-career training opportunities may be desirable; the case for federal subsidies is less compelling.

Finally, more innovative ways of managing and rewarding workers have considerable potential to improve productivity, humanize work, and make fighting inflation less painful.

Ms. **Sawhill**. The big changes are that we have more women and fewer older men. In the year 2000, it is projected that 72 percent of prime age women will be working, and that is up from about 62 percent of prime age women now, and up from about 40 percent in 1950. Everybody is very familiar with the increased labor force participation of women, but it really is staggering.

What people are a little less familiar with is how dramatically labor force participation rates have changed among older men. In the year 2000 the projections are that 37 percent of males over age 55 will be working, and that is down from about 45 percent now, and 68 percent in 1950. So, that is really a major change.

Moving away from changes in the composition of the labor force, and looking more at what kinds of jobs are going to be available in the future, the story is pretty well known here as well.

What we are going to see in the future is a white-collar and service economy. We are going to need to have workers move out of traditional blue-collar work into these jobs, just as earlier there was a movement of farmworkers into manufacturing.

However, I think the fears that are so often expressed these days that technology and an increasingly competitive world economy are going to produce widespread unemployment are really not justified by the evidence. These changes are taking place very slowly. In a normal healthy economy, there is no reason why the transition of people from blue-collar work into white-collar and service work cannot occur through the process of normal attrition.

The reason that unemployment rates are so high right now has much more to do with the recession than it has to do with structural dislocations in the economy. I don't have the time now to go into all of the data and analysis on this issue, but I would be glad to elaborate on the point later.

I don't want to imply that there are not serious pockets of structurally unemployed workers. There are some plant shutdowns that are affecting people and the communities that they live in in a very serious way. However, the scale of the problem is not massive. Some form of adjustment assistance is warranted for such people, but it need not be a very large-scale expensive new program.

Finally, I think it is worth noting that this new economy of the future, which will have more white-collar and service jobs, will be qualitatively different than the one we have been used to in the past.

Workers will be more educated. They will have more discretion and responsibility on their jobs, and their productivity will depend more on how well they are motivated and less on external discipline.

I think that this promises more flexibility with respect to both the timing and the location of work. We could, for example, see a lot more part-time job opportunities, more flexible hours of work, and more people doing work at home, and this could lessen the conflict between work and family life.

These comments have only scratched the surface of what is a large and complex area of inquiry.

I will be glad to respond to any questions later.

[Prepared statement of Isabel Sawhill follows:]

PREPARED STATEMENT OF ISABEL V. SAWHILL,[1] THE URBAN INSTITUTE ON EMPLOYMENT AND FAMILY INCOME

I am pleased to have the opportunity today to present my views on employment and its significance for family economic well-being. First, I will briefly review the importance of jobs and earned income to families of various types. Then, I will focus on unemployment during the recent recession and its impact on family incomes and describe the implications for families of different recovery paths from the recession. Finally, I will briefly discuss some longer-term trends in the size and composition of the labor force and in the structure of the job market that may be pertinent to this Committee's concerns.

CONTRIBUTION OF EARNINGS TO FAMILY INCOME

The average family in the United States receives 83 percent of its income from work. However, there is considerable diversity around the average (Table 1). Generally, the higher a family's income the more likely it is to rely on income from work rather than from other sources. There may be a small fraction of wealthy people who live off income from capital (2 percent according to Table 1), but most families that are well off are so precisely because they have been successful in the labor maket. Low-income families receive only 29 percent of their income from work with most of the rest coming from government transfer programs. Among the elderly, this is predominantly social security; among the nonelderly, it is more likely to be public assistance.

Within the lower-income group, there are two quite different types of families: those who are poor—often chronically—due to the lack of a wage-earner in the family and those who are poor—often temporarily—because the wage earner is unsuccessful in the labor market. In the first group are a large number of female-headed or elderly families as well as people with physical or psychological disabilities. If we include just those female-headed families with children under six, two-thirds of those with market (pre-transfer) incomes below the poverty line fall into the first category. The other one-third of the pre-transfer poor either do not work enough to earn their way out of poverty or do not earn enough even when they work full-time to support their families.

While there is no sharp line between these two groups, clearly it is the second group that is most likely to be affected by what is happening to the economy. Moreover, as we have seen, the well-being of nonpoor families is overwhelmingly dependent on their success in the labor market. Let me now focus on how they have fared just recently.

EFFECTS OF RECESSION AND RECOVERY ON EMPLOYMENT AND FAMILY INCOME

Over the past 3 years, monetary policies has been dedicated to fighting inflation with the result that we have sufferd two back-to-back recessions. The unemployment rate rose from 6.3 percent in January 1980 to 10.8 percent in December 1982 or by 4.5 percentage points. Since December it has been declining slowly. While the recession has been credited with having caused more of the decline in inflation than I think the evidence warrants, it has reduced the underlying inflation rate substantially—probably by 3 or 4 percentage points. How much did the war against inflation cost the nation's families and how was the burden shared among different kinds of families?

The total costs in lost income over all 3 years (1980–1982) is estimated at $171 billion (Table 2). This represents not only the costs of higher unemployment but also lost opportunities for those seeking jobs, decreased hours, and lower earnings. It represents the equivalent of over $2,000 per family. In short, if the costs of the recession had been shared equally across the nation, this is what each family would have contributed to the cause. We have reduced standards of living in the hopes that a more inflation-free economy will produce a faster rate of growth in the future.

Clearly, some families have been impacted more than others. We know, for example, that unemployment affects lower-income families more than higher-income families and that it increases the incidence of poverty. Within any income group, male-headed families are more affected than female-headed families and blacks more than whites.

Let's look at some of the evidence. First, unemployment is more likely to strike those with low earnings. In 1981, for example, the median weekly earnings of those who experienced some unemployment equaled only 72 percent of the median for those who suffered no unemployment, according to the Bureau of Labor Statistics. However, 60 percent of those experiencing unemployment were in families with more than one earner. Among husband-wife families experiencing unemployment this proportion was 79 percent. (See S. L. Terry, "Work Experience, Earnings, and Family Income in 1981", Monthly Labor Review, April 1983.)

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[1] This testimony represents the views of the author and not those of the Urban Institute or any of its sponsors.

Second, a 1 percentage point rise in the overall unemployment rate leads to a 1.3 percent drop in pre-tax, pre-transfer income for the average family (causing the aggregate losses described above) but a 6 percent drop for those male-headed families with poverty level incomes and less than a 1 percent drop for those with incomes at more than five times the poverty level. Within any income group, male-headed families experience drops in income that are on the order of two times as great as female-headed families, reflecting the greater dependence of the latter on income transfers. Black male heads are slightly more more vulnerable to recessions than whites. (These results are from new research done at the University of Michigan by Edward M. Gramlich and Deborah S. Laren, "How Widespread are Income Losses in a Recession?", forthcoming in an Urban Institute conference volume, D. Lee Bawden, editor.)

Third, we know that the incidence of poverty is quite sensitive to the unemployment rate. For example, it is estimated that a 10 percent increase in the unemployment rate is associated with about a 2.5 percent increase in the incidence of pretransfer poverty. Thus, a rise in the unemployment rate from 9 to 10 percent could be expected to increase the number of people in families with poverty level earnings from 20 percent of the population to 20.5 percent, adding over a million people to this group. (Institute for Research on Poverty, "Poverty in the United States: Where Do We Stand?", Focus, Winter 1981–82.)

Thus far I have focused on recession-induced losses in market incomes, ignoring the cushioning impact of taxes and transfers. Over the entire period, 1967 to 1980, Gramlich and Laren estimate that for every dollar that a family lost as the result of unemployment the government replaced about 34 cents as the family's tax liabilities fell and unemployment insurance, food stamps, and other income transfers helped to fill the income gap. I have used their estimate to adjust the income losses cited above for the 1980–82 recession. After taxes and transfers, the average family suffered a $1,362 drop in income (Table 2). The distribution of the losses across families is a little less unequal as the result of these programs but the general conclusions about who has paid the highest price in the war against inflation remain the same. These are conservative estimates because they do not adjust for the fact that the operation of the safety net has been sorely tested by recent changes in tax and transfer programs and by the depth and duration of the recession.

Although the recession appears to be over, it will be a long time before the unemployment rate falls and the economy is once again operating at full capacity. How long depends on the strength of the recovery. For example, if real GNP were to grow at an average rate of 3.5 percent starting in 1983, unemployment would not fall below 6 percent until 1990 and I estimate that the additional losses in family income associated with the depressed level of economic activity would be $235 billion or $2,647 per family after taxes and transfers. Alternatively, if real GNP were to grow at 5.5 percent, unemployment would likely fall below 6 percent by 1985 and the average family would only sacrifice $665 or one-fourth this much in lost income (Table 2). These calculations indicate that families have a substantial stake in the economy's recovery path. A strong vs. a weak recovery translates into an additional $283 in real disposable income per family per year between now and 1990.

LONGER-RUN PROSPECTS

Many people believe that the recent recession is the least of our worries—that as a result of increased competition from abroad and new technologies, the American economy is undergoing a process of structural change with important implications for the job market in the decades ahead. At the same time, the pool of available workers is changing in ways that will create new challenges for employers and for public policy. Both of these trends are discussed in some detail in my paper entitled "Human Resources" (just published in Regrowing the American Economy G. William Miller, ed., Prentice Hall, 1983) which I would like to submit for the record. Here, I will simply summarize some of the findings and make a few additional observations.

First, even in a full-employment economy, there are barriers and disincentives to participation in the labor force that reduce the proportion of the population that works, creating a higher than necessary dependency ratio. Increasingly such dependency is not just a matter of transfers of income within the family (for example, from husband to wife or from parents to children) but rather one of taxing some families to provide income assistance for others. Although taxes and transfers contribute to a more equitable sharing of available goods and services and protect families against a sudden loss in income, such reshuffling of income does nothing to increase the size of the pie and may actually reduce it by discouraging productive activity. Everyone would be better off if we could maximize incentives and opportunities to work. In terms of sheer numbers, two groups stand out: adult women and older Americans. Probably the two most significant "supply-side" measures adopted in recent years are the reduction in the so-called "marriage penalty" and the increase in the social security retirement age. As an affluent society, we can afford to support those unable to work but not those whose employment is discouraged by custom, institutional barriers, and financial disincentives.

One barrier that may be particularly important is a lack of part-time and flexible employment opportunities. More such opportunities would have two potentially postive effects. They might encourage more older people and more women to work. And they would permit those parents who are now working full-time to devote more time to their children. As a society, we have not yet resolved the problem of who takes care of children when fewer than half have a nonworking parent at home. While more day care and a different arrangement of school hours could help, I do not believe they can be the only answer. In his recently published book, "How We Live" (Harvard University Press, 1983), Victor Fuchs argues convincingly that what children need most is more parental time and attention.

Even without any changes in institutional arrangements, the labor force is projected to grow by 27 percent between 1980 and the end of the century. What kinds of jobs will be available for these workers and how is this likely to affect family life?

The job opportunities of the future will be predominantly in white collar or service occupations. There will need to be a gradual movement of workers out of traditional blue collar work into these jobs just as there earlier was a movement of farm workers into manufacturing. However, fears that technology and an increasingly competitive world economy are going to produce widespread unemployment seem unjustified. There is no evidence that current high levels of unemployment are significantly related to structural dislocations; they are a result of the recession. During normal times, employment in manufacturing continues to grow, albeit at a slower pace than employment in other sectors. And in normal times, most of the needed shifts between sectors can be accomplished through attrition rather than layoff. Where mass layoffs or plant closings do occur they cause serious problems for the individuals and communities involved and some form of adjustment assistance is warranted. But because the problem is limited in scope, this need not be a large-scale, expensive new effort.

The "new economy" of white collar and service jobs will be a qualitatively different one. Workers will be more educated and will have more discretion and responsibility; their productivity will depend more on how well they are motivated and less on principles of scientific management or external discipline. There should be more flexibility with respect to both the timing and location of work, possibly easing the conflict between work and family life.

These comments have only scratched the surface of what is a large and complex area of inquiry. I would be happy to respond to any questions.

TABLE 1.—IMPORTANCE OF EARNED INCOME TO DIFFERENT FAMILIES

	Percent of family units with earned income	Earned income as percent of total income
All families	81	83
Low-income families (bottom quintile)	43	29
Middle-income families (average of middle quintiles)	87	77
High-income families (top quintile)	98	89
Elderly (head age 65 and over)	34	27
Nonelderly (head under age 65)	92	88
Husband-wife	89	83
Female-headed (no spouse present)	61	57
Male-headed (no spouse present)	81	81

Source: CPS, 1977.

Table 2

Family Income Losses Associated with the 1980-1982 Recession
and the Stake of Families in Economic Recovery

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Unemployment Rate (%)												
Actual	5.8	7.1	7.6	9.7								
Projected[1]												
Weak Recovery (3.5% real GNP growth)	6.0	7.3	7.5	9.3	8.9	8.5	8.1	7.6	7.2	6.8	6.4	5.9
Strong Recovery (5.5% real GNP growth)	6.0	7.3	7.5	9.3	8.1	6.8	5.5	4.2	2.8	1.4	-0.1	-1.6

Personal Income Losses (1982 $)	(1) Recession (1980-82)	(2) Weak Recovery (1983-89)	(3) Strong Recovery (1983-84)	(2)-(3) Difference between Strong and Weak	(1)+(2) Total Losses with Weak Recovery	(1)+(3) Total Losses with Strong Recovery
Pre-Tax and Pre-Transfer[2]						
Total (billions of $)	171	356	86	269	526	257
Per family ($)	2,063	4,010	1,008	3,002	6,073	3,071
After Taxes and Transfers[3]						
Total (billions of $)	113	235	57	178	347	170
Per family ($)	1,362	2,647	665	1,982	4,009	2,027

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1. Projected using the formula: % GNP gap/2.2 + 6.0, assuming potential GNP growth of 2.5%.

2. Following Gramlich and Laren, estimates are based on the assumption that each point year of unemployment above 6% reduces pre-tax and pre-transfer income by 1.3 percent. Pre-tax and pre-transfer income is assumed to equal 0.7 GNP.

3. Estimated by assuming a replacement rate of 34 percent.

Mrs. **Schroeder**. Thank you very much.

I should have mentioned your expertise on these subjects.

Dr. Sawhill is a senior fellow at the Urban Institute and Codirector of the Changing Domestic Priorities project.

Dr. Sawhill is a senior fellow at the Urban Institute and codirector of the changing domestic priorities project.

Now, we turn to Dr. Diana Pearce, director of research at the Center for National Policy Review at Catholic University.

The floor is yours.

STATEMENT OF DIANA PEARCE, DIRECTOR OF RESEARCH, CENTER FOR NATIONAL POLICY REVIEW, CATHOLIC UNIVERSITY

Ms. **Pearce**. I am very pleased to be here.

I think it is very important and appropriate that you are taking the time to have these hearings, and I hope we can help you see some of the broader aspects of these problems.

More and more children spend part or all of their childhood in poverty. They are increasingly dependent upon their mothers' incomes at a time when that income is stagnating, even declining. Though the rise of single-parent families plays an important part of this trend, it is fundamentally a consequence of the disadvantaged economic status of all American women.

American families have always been dependent upon the work of women, unpaid and paid; but more and more, American families have become dependent on the income brought in by women. For this reason, children and their families, especially but not exclusively those maintained by women alone, are bearing the costs of the economic inequalities experienced by women today.

Women have three sources of income or, alternatively, of poverty: The major one is earnings, with private transfers—child support, alimony—and public transfers—such as AFDC and unemployment compensation completing the triad. Although these facts may be familiar, they are essential to this story: About half of American wives are in the labor force, with those with children participating at an even higher rate. Of the 5.2-million women who maintain their households alone, and who have children under 18 living at home, about two-thirds are working or looking for work. Of 26 million wives who worked, 11.4 million worked full time, contributing an average of 37.6 percent of the family income. The poorer the family, the more crucial is the wife's contribution. In families in which total income is less than $15,000, that contribution averages more than half. There are about 2 million wives who were in the labor force when their husbands were not, making them a major, if not the sole, source of income for their families.

It is not news that women earn less than men. But it bears reminding that the median weekly gross earnings of women workers—and here there is no difference between wives and women heading households alone—was $190 in 1978, compared to $324 for husbands.

One consequence of this differential in earnings is that women, even those with full-time jobs, often cannot earn enough money to keep their families out of poverty. The percentage of black and Hispanic women households working full time year round, whose families are still poor, is as high as the percentage of families maintained by white men who did not work at all. Why is it that the latter group can, even when they do not work, keep their families income above poverty levels, while many women working very hard cannot do so?

One reason is that we have developed a dual welfare system, with two separate and unequal tracks. These two tracks parallel and reinforce what labor economists call the dual labor market. That is, there are two kinds of jobs, primary and secondary. This may be familiar to you, I am not sure.

The primary sector job is characterized by good pay, fringe benefits, fair administration of work rules, more security, et cetera, while the secondary sector jobs contrast sharply. The welfare system also has two tracks, with the primary sector being characterized by programs from which benefits are received as a right, are relatively generous in amount, are not stigmatizing to their recipients. Examples of primary sector programs include unemployment compensation, social security, and veterans' benefits.

In contrast, secondary sector benefits are means tested, benefit levels are low, receipt is less certain and may even be somewhat arbitrary, for example, between localities. Those who receive secondary sector benefits—for example, welfare and public assistance, like those who hold secondary sector jobs—are disproportionately women and minorities. And which sector one receives benefits from makes a large difference in whether one is likely to be poor: Only about 5 percent of those receiving primary sector benefits are poor, compared to about two-thirds of those receiving secondary sector benefits.

Theoretically, all those who have worked would be eligible for unemployment compensation when they lose their jobs through no fault of their own. In practice, however, many women are not. One of the reasons that many women are rendered ineligible for unemployment compensation, and there is much variation by State, is a direct consequence of the family responsibilities most often borne by women.

If a woman chooses to quit a job to join her husband who has gone elsewhere to work, or because she is needed to care for a sick child, or because she cannot obtain adequate child care, she is often not eligible for unemployment compensation. In addition, in many States, a penalty period of 4 or more weeks is imposed on her. Likewise, refusal to take a different shift because of unavailability of child care is sometimes treated as voluntary leaving, making the person ineligible. From a mother's point of view, this, of course, presents her with a Hobson's choice. whether to adequately take care of her children, or have an adequate income, for she cannot have both.

To the two-earner family, the wife's ineligibility under these circumstances means her job loss is not cushioned by unemployment compensation. And if her husband has also lost his job and is not receiving benefits, in more and more States, they are not eligible for help because they are a two-parent family. That means eligible for welfare.

For the family maintained by a woman alone, the choice may only be one, and that is welfare. Thus, increasingly, welfare is acting as a poor women's unemployment compensation, but it does so much less adequately than the real unemployment compensation. To obtain welfare, one must, of course, have little or no other income, and have exhausted one's resources; at the same time, there will be much pressure to obtain employment as early as possible, regardless of the suitability or permanency of the employment.

The consequence is to set up a cycling between secondary jobs and assistance, with little hope or means out of a life of poverty. In contrast, while primary-sector benefits are hardly munificent, they do provide the worker the means to continue the job search somewhat longer. With reserves intact and more resources, one has a better chance of once again entering employment with a primary-sector job.

Women who struggle to maintain their families alone are facing increasing pressures on their families' very existence:

The recession economy has made jobs for those at the bottom in terms of skills, labor force experience, education, et cetera, especially difficult to obtain and hold. They are at the end of the queue in terms of jobs, and they often are not able to get them.

Child support by absent fathers is actually decreasing in constant dollars; the average payment per family, not per child, actually decreased 16 percent between 1978 and 1981, now averaging about $2,110.

The limiting of work incentives in AFDC to 4 months makes it almost impossible for a woman to move gradually from partial to full support of her family.

The curtailing of housing and day-care subsidies makes further demands on the single mother's limited resources. The USDA study of the costs of raising a child estimate that day-care costs are 8–9 percent of the average single-mother's expenses.

But the single greatest pressure on the family comes from AFDC, itself, for the family maintained by women alone. It is not only absent fathers who will not support their children; it is society as well.

My staff has been compiling data on what has been happening to AFDC payments over the last few years. We have chosen to use as our benchmark what foster parents are paid to take care of an extra child. While foster-care payments have always been greater than AFDC payments, that differential has widened considerably in the eighties.

We looked at foster care and AFDC at two points in time, 1974 and 1982. I should say that Alice Rivlin's testimony suggests that almost all the changes in AFDC occurred between 1980 and 1982. In constant dollars, the payments were level in the seventies.

These are estimates, and data was not available for all States. We found that average payments for foster children increased from $111 to $197; since the CPI almost doubled in this period—it rose 196 points—this is a little less than inflation. In contrast, however, AFDC rose from only $35 per child to $49. Put another way, the average ratio of AFDC payments to foster-care payments dropped from 32 percent to 25 percent. In some States, the AFDC mother is given support that is only 12 or 13 percent of what the foster-care mother is given to take care of a child—Texas, Alaska, and North Carolina.

If you were a mother who was unable to support herself and her child or children on her earnings, had little or no child support, and faced cuts in housing subsidies, and food stamps, and this level of support on AFDC, what would you do? At what point is your child better off if you gave him or her up and had the child placed in foster care?

In a very real sense, we have come full circle. In the 1900's, it was found that the orphanages were full of half-orphans, children whose mothers could not both support and take care of; the mother's pension movement that culminated in the Federal AFDC program arose out of a strong resolve that no family which is otherwise viable, should be broken up because of poverty alone.

Today, we have foster care instead of orphanages for children, and shelters instead of workhouses for mothers, but otherwise the phenomenon is similar.

Thank you very much.

I will entertain questions.

[Diana Pearce's prepared statement follows:]

PREPARED STATEMENT OF DIANA M. PEARCE, DIRECTOR OF RESEARCH, CENTER FOR NATIONAL POLICY REVIEW, CATHOLIC UNIVERSITY

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Women have three sources of income, or alternatively, of poverty: the major one is earnings, with private transfers (child support, alimony), and public transfers (such as AFDC and unemployment compensation completing the triad.) Although these facts may be familiar, they are essential to this story:

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* Of 26 million wives who worked, 11.4 million worked fulltime, contributing an average of 37.6% of the family income.

- The poorer the family, the more crucial is the wife's contribution: in families in which total income is less than $15,000, that contribution averages more than half.
- There are about two million wives who were in the labor force when their husbands were not, making them a major if not the sole source of income for their families.

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One consequence of this differential in earnings is that women, even those with fulltime jobs, often cannot earn enough money to keep their families out of poverty. The percentage of black and Hispanic women households working full-time yearround whose families are still poor is as high as the percentage of families maintained by white men who did not work at all. Why is it that the latter group can, even when they do not work, keep their families' income above poverty levels, while many women working very hard cannot do so?

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In contrast, secondary sector benefits are means-tested, benefit levels are low, receipt is less certain and may even be somewhat arbitrary (e.g., between localities). Those who receive secondary sector benefits, i.e., welfare and public assistance, like those who hold secondary sector jobs, are disproportionately women and minorities. And which sector one receives benefits from makes a large difference in whether one is likely to be poor: only about 5% of those receiving 'primary sector' benefits are poor, compared to about two-thirds of those receiving secondary sector benefits.

Theoretically, all those who have worked whould be eligible for unemployment compensation when they lose their jobs through no fault of their own. In practice, however, many women are not. One of the reasons that many women are rendered ineleigible for unemployment compensation, and here there is much variation by state, is a direct consequence of the family responsibilities most often borne by women. If a woman chooses to quit a job to join her husband who has gone elsewhere to work, or because she is needed to care for a sick child, or because whe cannot obtain adequate child care, she is often not eligible for unemployment compensation. In addition, in many states, a penalty period of four or more weeks is imposed on her. Likewise, refusal to take a different shift because of unavailability of child care is sometimes treated as "voluntary" leaving, making the person ineligible. From a mother's point of view, this of course presents her with a hobson's choice, whether to adequately take care of her children, or have an adequate income, for she cannot have both.

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For the family maintained by a woman alone, the choice may only be one, and that is welfare. Thus increasingly, welfare is acting as a 'poor women's unemployment compensation,' but it does so much less adequately than the real u.c. To obtain welfare, one must of course have little or not other income, and have exhausted one's resources; at the same time, there will be much pressure to obtain employment as early as possible, regardless of the suitability or permanency of the employment. The consequence is to set up a cycling between secondary jobs and assistance, with little hope or means out of a life of poverty. In contrast, while primary sector benefits are hardly munificent, they do provide the worker the means to continue the job search somewhat longer; with reserves intact and more resources, one has a better chance of once again entering employment with a primary sector job.

Women who struggle to maintain their families alone are facing increasing pressures on their families' very existence:

* the recession economy has made jobs for those "at the bottom" in terms of skills, labor force experience, education,etc., especially difficult to obtain and hold.
* child support by absent fathers is actually decreasing, in constant dollars: the average payment per family, not per child, actually decreased 16% between 1978 and 1981, now averaging about $2110.
* the limiting of "work incentives" in AFDC to four months makes it almost impossible for a woman to move gradually from partial to full support of her family.
* the curtailing of housing and day care subsidies make further demands on the single mother's limited resources. (The USDA study of the costs of raising a child estimate that day care costs are 8-9% of the average single mother's expenses.)

But the single greatest pressure on the family comes from AFDC itself. It is not only absent fathers who will not support their children: it is society as well. My staff has been compiling data on what has been happening to AFDC payments over the last few years. We have chosen to use as our "bench mark" what foster parents are paid to take care of an "extra" child. While foster care payments have always been greater than AFDC payments, that differential has widened considerably in the eighties.

We looked at foster care and AFDC at two points in time, 1974 and 1982. These are estimates, and data was not available for all states. We found that average payments for foster children increased from $111 to $197; since the CPI almost double in this period (it rose 196 points), this is a little less than inflation. In contrast, however, AFDC rose from only $35 "per child" to $49. Put another way, the average ratio of AFDC payments to foster care payments dropped from 32% to 25%. In some states, the AFDC mother is given support that is about 13% of what the foster care mother is given to take care of a child (Texas, North Carolina and Alaska.

If you were a mother who was unable to support herself and her child or children on her earnings, had little or no child support, and faced cuts in housing subsidies and food stamps and this level of support on AFDC, what would you do? At what point is your child better off if you gave him/her up and had the child placed in foster care?

In a very real sense, we have come full circle. In the 1900s, it was found that the orphanages were full of 'half-orphans', children whose mothers could not both support and take care of: the mother's pension movement that culminated in the federal AFDC program arose out of a strong resolve that no family which is otherwise viable, should be broken up because of poverty alone. Today we have foster care instead of orphanages for children, and shelters instead of workhouses for mothers, but otherwise the phenomenon is similar.

	Average Foster Care Payment (Per Child)		Average AFDC Payment (per child)				Ratio of Average AFDC Payment (Per Child) to Aver. Foster Care Payment					
			Method I[a]		Method II[b]		Method I[a]			Method II[b]		
	1974	1982	1974	1982	1974	1982	1974	1982	Difference	1974	1982	Difference
Alaska	$183	$487	$ 50	$ 63	100	159	27%	13%	-14%	55%	33%	-22%
Arizona	100	202	33	44	46	61	33	22	-11	46	30	-16
Arkansas	114	131	10	21	31	36	9	16	+ 7	27	27	0
Colorado	129	218	44	66	63	95	34	30	- 4	49	44	- 5
Florida	117	209	27	40	38	58	23	19	- 4	32	28	- 4
Idaho	101	116	40	50	75	86	40	43	+ 3	74	74	0
Illinois	121	188	44	57	68	87	36	30	- 6	56	46	-10
Kentucky	115	157	32	37	43	59	28	24	- 4	37	38	+ 1
Louisiana	75	211	26	49	31	59	35	23	-12	41	28	-13
Maine	90	152	35	78	42	95	39	51	+12	47	63	+16
Massachusetts	155	183	45	66	76	111	29	36	+ 7	49	61	+12
Michigan	126	230	57	76	91	127	45	33	-12	72	55	-17
N. Carolina	90	165	19	22	46	53	21	13	- 8	51	32	-19
Pennsylvania	92	244	53	61	87	99	58	25	-33	95	41	-70
S. Carolina	85	132	21	31	29	41	25	23	- 2	34	31	- 3
Texas	90	225	27	28	35	35	30	12	-18	39	16	-23
Virginia	140	164	44	51	61	71	31	31	0	44	43	- 3
W. Virginia	80	139	25	43	37	62	31	31	0	46	45	- 1
Average	$111	$197	$ 35	$ 49	56	77	32%	25%	-7%	50%	39%	-11%

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[a] Assuming that the difference between a two-person and a four-person family receiving AFDC is the addition of two children, Method I calculates the "per child" payment by taking the difference between a two person and a four person AFDC family payment, and dividing it by two.

[b] Method II calculates the "per child" payment by taking one fourth of the average four person AFDC payment.

Mrs. SCHROEDER. Thank you.

Let me now defer to Congressman Coats for a question.

Mr. COATS. Thank you, Doctor. You made the statement that the rise in single-parent families plays an important part in this trend. It is a fundamental consequence of the disadvantaged economic status of all American women.

We heard testimony from the Director of the Census, who indicated that while average income of a working, single parent female was considerably lower than working single-parent males, it was not the function of the discrimination in pay. It was primarily due to the fact that those working mothers often did not have the workplace experience, marketplace experience, and educational background of men. Therefore, they were entering the market at considerable disadvantage to the types of jobs available to them.

I also met with Dr. Zigler, of the Busch Institute, who confirmed that same finding: working mothers were receiving about 65 percent of the pay received by working fathers. That was mainly the function of what has been said about the lack of experience in the marketplace. These working mothers could not compete at the kind of jobs that are available, because they were coming against other women or other men who had longer periods of experience, better education.

I recognize that this is a real problem. Since your statement is almost diametrically opposed to these two observations, would you comment?

Ms. PEARCE. There is a big difference, and one of the best indicators of that is to examine the figures for working women who are not in families, who do not interrupt their careers to have children.

Their earning curves are just not quite as bad as the mother who is out of the labor force but they are considerably less than those of men; and in terms of education, et cetera, it is clear it is not that lack that accounts for female pay differences.

I will defer to Dr. Sawhill, who has actually done a study.

Ms. SAWHILL. If I may comment, I have done some work on that and served on the National Academy of Sciences Committee investigating that very question. What the research shows is that there is not a large amount of unequal pay for men and women who work at the same job, but there is a tremendous amount of occupational segregation.

As is well known, women work as nurses and secretaries, and men work as doctors and lawyers. That is the reason for the enormous gaps, and that kind of occupational segregation exists even after you adjust for education and experience and everything else that you can think of.

If you take the entire earnings gap between men and women, a consensus estimate coming out of the literature might be that you could explain at most about half of the gap by looking at differences in experience and education.

Mr. COATS. Could I follow upon a point you just mentioned? Dr. Sawhill, you indicated in your testimony, a greater proportion of jobs in the future will be at some of the more service-oriented areas, perhaps lower paying jobs. Jobs that don't involve themselves so much with heavy-duty manual labor as jobs in the past. I am wondering if each of you would want to comment on whether this gives a glimmer of hope for some mothers who may have the dexterity skills or the types of skills that are more amenable to these types of jobs rather than heavy-duty manual labor?

In my own situation in Fort Wayne, Ind., we just proposed the closing of an International truck plant that was predominantly staffed by males who had a lot of beef and brawn. There was a lot of lifting and heavy duty, tough, grimy, dirty work. Another factory in our town is employing 90 percent women to do a lot of assembly work.

Does this mean that some of these mothers will have a more equal ability to find some of the new jobs that are emerging in our economy? They may not be as high paying as the old assembly job that was subject to a bargaining contract. At least they are jobs, and they are available. These jobs seem to be going more to women than to men. Am I off base here?

Ms. SAWHILL. Well, I think everyone believes that increasing numbers of service and white-collar jobs have tended to improve opportunities for women, so I think that is correct, but I think you are also correct when you suggested that there may still be problems with earnings levels in those jobs.

Mr. COATS. Of course, those problems are equal for men and women.

It so happens that the job does not pay what a UAW contract pays. The industry is different. Bargaining has been different. It is not a disparity between female and male. That is the difference between the job available, the assembly of small parts for radio components, versus the pay that is available for working in a paint shop or truck shop.

Ms. SAWHILL. It really goes back to the occupational segregation or primary, secondary labor market issues that Diana was talking about.

Ms. PEARCE. We should not underestimate that the power of occupational segregation to perpetuate itself, even in job categories and the correlation between high-percent female jobs and low wages.

As more men went into teaching, wages went up.

When women start to occupy an occupation, the wages go down. Even when there is a shift to new jobs, you get a creation of a new occupation that is primarily female.

I am a little more wary of them turning toward homework and flex work, doing assembly work, et cetera, at home, because women workers who are doing that, they are quite open to exploitation.

It is difficult to give the same kind of protection that workers have in a plant. They have no time off, bear all the overhead costs. They are not able to compare working conditions, and are very much open to the possibility of continuing low wages and exploitation under the guise of seeming to be more flexible.

Mr. COATS. It could have certain advantages for a mother trying to raise a family and take care of her children, if she were able to contract to do work in the home.

Ms. PEARCE. I am not entirely certain that this is the best thing for our families, for the mother to be constantly having to make a choice between typing another letter and attending to a child's needs and having that choice being an economic choice. I think the better alternative is equal pay for equal work.

Mr. Coats. In terms of child care, and so forth.

Ms. Pearce. Adequate child care and flexibility of child care arrangements in a variety of cases that women often do not have, being able to have adequate child care in their own home or in a day-care center, and we also need to think about how we are going to support families with small children.

Mr. Coats. Don't you think there is some advantage to some mothers being able to contract for part-time work in the home, rather than having to go through the process of finding adequate day care outside the home?

Ms. Pearce. It can have—I said there were dangers here.

We should be a little bit more wary before we enthusiastically embrace this as a solution.

Mr. Coats. I think I have overextended my time.

Mr. Levin. This has been an excellent session.

Dr. Pearce, your testimony about foster care, as Representative Schroeder said, is kind of stunning.

Has the incidence of foster care actually been going up?

Is there evidence that more and more people are looking at the tradeoff in terms of care for their children and adopting foster care?

Ms. Pearce. It is a very difficult question.

Trying to determine voluntarily giving up your child as opposed to being forced to give up your child is very difficult because sometimes what happens is that income becomes very low and the mother makes a choice to cut out day care.

The children are taken away from her.

That is a direct effect of having inadequate income, either earned income or AFDC income, or some combination.

It goes to having the children taken away.

In 1980, they tried to reform foster care; they tried to get permanent homes found for many children who had been in foster care for a long time, thus reducing the total number of foster care children.

It is very difficult to determine how many more children are in foster care because there have been many children living in foster care for different reasons.

There is indirect evidence from the fact that more AFDC mothers are showing up in shelters for homeless, and, suggesting that some AFDC families are breaking up, but that is pretty indirect.

Mr. Levin. On page 3, you mentioned the increasing numbers state that we are denying welfare payments to two-parent families.

Ms. Pearce. There was a program called the AFDC–UP program, AFDC-Unemployed-Parent, in which both the father and mother were in the home, were unemployed.

If they had exhausted unemployment benefits, or were ineligible, their family was eligible to receive welfare. That was a very expensive program, because there were two adults, and often they were larger families.

A number of States, when it came to decreased moneys for AFDC, elected to eliminate optional programs, of which AFDC–UP is one. I can't tell you how many States.

Mr. **Levin**. Maybe the staff could find that out.

What do families do who exhaust their unemployment benefits with their present system?

Do you have any notion as to what happens to those families?

Ms. **Pearce**. The original reason for instituting that program was the supposition that the way welfare was set up, by being only for single-parent families, provided an incentive whereby if the father lost his job, and had exhausted his benefits, that the only way he could provide support for that family was to leave the family so they could become eligible.

That is why we originally set up that program. I assume that once again, family breakup to make them welfare eligible, is a possible consequence of ending that program. The only way in which fathers who are unable to support their families because they cannot get jobs and are no longer eligible for unemployment compensation to support their families, in the absence of AFDC-UP, would be to leave their families.

Mr. **Levin**. If you know of any studies done, I would be interested to look at them, because we are interested in the impact of the present situation economically.

Thank you very much.

Mrs. **Schroeder**. Congressman Wolf?

Mr. **Wolf**. Thank you very much.

I appreciate both of your statements.

I want to make a comment, and ask a question. Along the lines Congressman Coats was talking about, it seems to me the two of you were differing on the question about the importance of the mother being in the home.

The latest studies that have come out that I have read about in the Washington Post seem to indicate the importance at an early age for the mother to be in the home with the child if at all possible. I realize there are many instances where that just is not possible.

It seems that the way to deal with the problems you outline is to promote alternative work schedules, and that it is a good idea for work to be factored in the home. However, investigations should be made to insure protection for the individual, to insure that the corporation does not exploit the worker and that the labor contract is complete with pay provisions. Protection would then be comparable to working in the plant or in the office.

Shouldn't we encourage these alternative work schedules? The mother could work at home and not have to go out, and take the child in the morning.

In your testimony you said 8 to 9 percent of the cost was for day care, and that the mother could be with the child and also have the protections provided by working for a corporation that she would have if she worked in-plant as well as working in the home?

Ms. **Pearce**. I am not sure what the question is.

Mr. **Wolf**. Isn't it a good idea for the mother to be with the child, but in addition to that, give the worker adequate protection for seniority and pay?

Ms. **Pearce**. I think I would add there have been a number of studies that have come to different kinds of conclusions, and I think that we need——

Mr. **Wolf**. Different kinds of conclusions?

Ms. **Pearce**. About the need for the mother to be in the home in terms of the child.

Mr. **Wolf**. What studies, I would like you to submit them for the record. I can't believe there are studies suggesting it is better for a mother to be away from her 1-year-old baby or 18-month-old baby.

The testimony that Dr. Brazelton gave us when we started, indicated it may not be possible to be for the mother home, but if it is possible, we can accomplish both. I just can't believe that any study would say it is better to take the child away from the mother.

Ms. **Pearce**. Especially when the young child, I think I would tend to agree, but I would add two things. One is that those studies of mothers with children have been in situations where the mother's work was taking care of the child, that there wasn't two jobs and I think that changes the quality of that care in ways we didn't really know.

We don't have experience with homework or piecework whatever, in recent times.

Mr. **Wolf**. Well, I think it is important. Let me say for the record, I think it is important that this committee recommend that it is a good idea for parents or mothers and fathers, quite frankly, to have that opportunity to work at home.

But to follow up on your recommendation, I think it is valid to say it is important to make sure they are not exploited when they do that work and are paid fairly from the corporation, but give them the same protection as if they were working onsite.

One other question. Could you comment on the need for this committee to make recommendations with regard to any areas of change in child support enforcement programs to get fathers to pay up.

Ms. **Sawhill**. First of all, I think it should be at the top of your list of things to be concerned about. The data on the extent to which support is not being paid shows how dismal the situation is.

I think what we have to remember is that there is a father for almost every child in a family maintained by a woman. Back in the 1930's, when social security and AFDC were started, the assumption was that these children were "half orphans," to use Diana's earlier phrase.

That is no longer true. These are not cases of widowed mothers, these are cases of divorced and separated women and they are overwhelmingly the group that is in trouble in our society. One of the main reasons they are in trouble is because the fathers of the children are not bearing financial responsibility.

Well, I know you are aware of these facts. I just wanted to stress, I think it is a very critical issue.

Mr. **Wolf**. Do you have any ideas what we could do?

Ms. **Sawhill**. I have always thought that there was a need, first of all, to establish better standards for how much an absent parent should be expected to pay toward the support of a child. In other words, the problem is not only inadequate enforcement of existing child support agreements or orders, but also a problem of establishing awards initially that are fair to both parents and provide, within the constraints of both people's incomes, as much support for the child as possible. There has been an assumption in the courts that when a couple divorces, that what the father should be expected to pay in the way of support for the child is a sort of minimum subsistence level income, and I think we have to change that notion.

I think that the way to approach it is to say that the father ought to be expected to provide a certain proportion of his income and make that proportion available to the child.

Then I think the system also needs to be made into a less court based system, that we ought to have mechanisms which automatically trigger a support payment perhaps through the social security system, rather than putting the burden on individual mothers to have to hire a lawyer and take a father to court.

That just doesn't work. It burdens the legal system; it is too expensive for the mother involved and so forth. So those are some of the directions we should be moving in.

My understanding is (although I am not up to date on this issue) that States that have made an effort at collection have been quite successful, that the benefit-cost ratio on additional dollars devoted to collecting child support has been very high.

Mr. **Wolf**. Although I believe in State's rights maybe with regard to this issue there should be a little more activity on the Federal level since one State's activities are not coordinated with other States.

For example, a parent in the District of Columbia could go to Maryland or Delaware or some other place.

Ms. **Sawhill**. There is a professor, by the way, at the University of Wisconsin who is doing the best and most interesting work on this topic, I hope this committee——

Mr. **Wolf**. What is his name?

Ms. **Sawhill**. His name is Irwin Garfinkle.

Mr. **Wolf**. Thank you.

Mrs. **Schroeder**. I wanted you to know I have asked the staff to compile a handbook on child support enforcement so the committee can look at all the different factors I think that will help us.

Ms. **Pearce**. I want to add one thing about the AFDC, the program there to obtain father support. The program is set up to obtain support of fathers whose ex-wives, the mothers, are now receiving welfare benefits, with the idea that by obtaining child support that family would no longer be dependent upon public moneys.

One of the negative consequences of that is that these are fathers who have not been paying child support. Pressure is put on them when they are brought to court, they start paying child support, that they make the family ineligible for AFDC.

Once they are off AFDC, the State no longer has any interest in pursuing the payment of the child support and the father stops paying. The result is the mother is back where she started from and further behind, that makes mothers for obvious reasons not really enthusiastic about pursuing and being helpful in pursuing the father's child support.

One suggestion I would make is that enforcement of child support be done for all mothers who are not receiving child support and——

Mrs. **Schroeder**. That is a good point. I don't think it ought to be restricted to AFDC cases. This is an obligation of the father's. Maybe the mother should be getting both child support and AFDC, if her income is low. Thank you very much.

Ms. **Pearce**. I would like to make this suggestion, to set up systems to pay child support to the court which helps diffuse some of the anger between ex-wives and ex-husbands, and it is a pretty simple system to do.

People are much more likely to pay a court than they are to pay an ex-wife regularly.

Mrs. **Schroeder**. I thank you very much. I think that is one of the things we need to look at—no-fault child support enforcement.

Congresswoman Boggs?

Mrs. **Boggs**. Thank you very much.

Thank you, Dr. Pearce and Dr. Sawhill.

Following through on the suggestion, even in the families of more affluent means, we find great difficulties involved in the child support payment, particularly severe psychological effects upon the children themselves, especially when you have remarriages. The children of the mother who is going to remarry oftentimes feel that they are a tremendous burden, and try to get jobs of their own to pay their own way but find difficulty in doing that, so this can cause a great number of runaways.

I am very happy that you are addressing the subject of the need for the father to pay as much as he can without the mother being cut off from any of the other benefits that she may receive.

Here, all these years later we are discussing the man-in-the-house difficulty, the terrible disgrace that so many women on welfare were subjected to when they would have investigators come around to make certain there was no man in the house in order to receive their payments under the AFDC program.

I had hoped that we had learned our lessons in this regard, but apparently we are still suffering from the same sort of sociological hangups.

I was very interested in the discussion, and have been interested for a long time in the training, retraining, and education of girls and women as well as the testimony that you have, Dr. Pearce, about limiting the basic incentives to 4 months for the AFDC mothers.

Would you expand on that a little bit?

Ms. **Pearce**. Previously, it was possible, I think 1967 is the date when the amendments were passed, that a lot of women who were employed but did not earn enough to make her ineligible for welfare, in other words, she had income supplement from welfare, she retained what they call $30 for work expenses, plus a third of her earnings.

Now, what happens is that that is permitted for 4 months and after 4 months, every dollar that you earn reduces your benefit by $1, so there is no way for you to—you have no incentive to work, but it also means if you earn even a relatively small amount of money, given the level of welfare benefits, one is not eligible for welfare and related programs such as medicaid, which puts many mothers in a tremendous bind.

Since many of the jobs they have don't have such fringe benefits as health insurance, as they are in the secondary sector of the labor market, as soon as they are in a health crisis, for example, they or the child gets sick, they have to leave employment, because eligibility for welfare is necessary to get any kind of medical help, and that just reinforces the cycle of being locked into a life of poverty.

Mrs. **Boggs**. Is there any type of program that you would suggest for mothers who could be paid for a long period of time until their training was completed so they could go into a better job to relieve society, if you will, of AFDC payments?

Ms. **Pearce**. Well, we had a number of programs, some parts of which were beginning to do a very good job of doing that. We have eliminated those programs now. Sometimes it takes a while, sometimes it doesn't take very long at all, depending on the individual case, but one needs support as one goes, as one moves from being dependent on welfare.

Mrs. **Boggs**. I was interested in, Dr. Sawhill, your feeling that we are going through an extended period of difficulty in our economy because we perhaps are restructuring the whole economy and moving into technological-scientific information.

I wondered if you would give us some suggestion about how we can avoid characterization of jobs being "female." Women are locked into low-paying jobs. What we can do about avoiding the continued difficulty, then, of not being able to care for their families sufficiently, and at the end of their lives not having adequate pensions?

Ms. **Sawhill**. Well, I suppose one thing that you could do would be to look a little bit at the vocational education system. There has been quite a bit of emphasis on sex equity in vocational education in recent years, but I am not sure what has happened to it with the cutbacks in funding and the reduced Federal role in vocational education in the last few years.

Certainly, socialization and training for work begins quite young, and if schools are still putting little boys into shop classes and little girls into sewing classes, that will make a difference. In general, all the way up the scale, one should make sure that women are made aware of the fact that they may very well have to work through most of their adult lives and therefore, they should approach their career options seriously and think about all kinds of training opportunities and not simply think about what women have always done.

Mrs. **Boggs**. One of the instances that comes to mind that gets very specific in this regard is that I had a young constituent who was divorced fairly suddenly and had two very little girls to support.

She was a secretary in a shipyard. It was an enlightened corporation; there were training, retraining, opportunities for retraining in various regards, and also day care opportunities for those who wished to get extra training or new training, and they paid your salary at the yard as well.

She became a pipefitter because she could make so much more money being a pipefitter than being a secretary. She loved being a secretary. She was very fond of her job, she liked her boss, had had excellent working conditions, she had the little girls to support, and she wanted to become a pipefitter and apparently was very competent in her new task and getting along very well.

Unfortunately, in the present economy, the shipyard is closed. Although she still has the skills as a secretary, she has been having a very hard time finding a job. So the change in the structure of our economy from large industrial plants to more technologically oriented, in the smaller jobs capabilities, is going to affect a lot of women who really felt that they had gone up the scale as far as wage earnings was concerned, but have been locked out of industrial jobs they had been trained for.

Thank you.

Mrs. SCHROEDER. Thank you very much.

I thought that your analysis, Dr. Pearce, between primary and secondary jobs was excellent. I take it when you are talking about the secondary jobs for women, you are talking about what a lot of people call the pink-collar jobs?

Ms. PEARCE. It includes that, yes.

Mrs. SCHROEDER. The ones that have no fringe benefits, basically, and the ones it is easiest for women to move into.

Ms. PEARCE. They tend to be marginal industries in unsteady employment, low wages.

Mrs. SCHROEDER. As a consequence, it is very difficult to make ends meet on those salaries. This is something we don't talk enough about. When we talk about working mothers, we tend to think they are well off, with the whole portfolio of fringe benefits.

Your figures on foster care versus AFDC payments, I find startling. Have you done any research as to why that gap is there in so many States? Is it a punitive type thing?

Is it political clout and lobbying type of thing? Have you been able to collect the data and analyze why the gap exists? I don't think I have seen that information anywhere else. I just find it overwhelming to see it in there in black and white staring at you.

Ms. PEARCE. It is very difficult to collect, especially the earlier data because foster payments were not standardized. The reason we only selected these States is because they had relatively few foster care rates; we averaged for the different ages and that sort of thing.

In 1974, there were something like 2,700 rates for foster care, so it is difficult to summarize it. This is just the best data we could come up with.

The data, of course, did not speak to intent, except implicitly. Implicitly, I think, what they are saying is that we do not want to support single, any single parent family to the extent we were once willing to do so.

I think that is a message that is not lost on the AFDC mothers.

Mrs. SCHROEDER. Dr. Sawhill, I thought your comments about how middle-class families are affected by the recession were very good. We are not just pointing to the poor, but also the middle class has been affected severely.

Have you looked at people who are still employed being able to share unemployment burdens by using a work sharing plan? Short-time compensation programs have gone into effect in a few States.

Has any study been done on that, and how that affects middle-class families who are threatened by layoff?

Ms. **Sawhill**. I haven't seen anything on that. As you may be aware, the Labor Department is planning to do some very large-scale research to study the three States that do have a short time compensation system using UI for partial benefits.

Mrs. **Schroeder**. It might be very interesting to see how that is implemented in the three States and whether it has alleviated some of the problems you are talking about in the wild swings of unemployment that we see going on.

Lastly, I just want to point out your point on——

Ms. **Sawhill**. That would only affect, of course, the distribution of the losses, not the losses themselves.

Mrs. **Schroeder**. So, no one person is hit as hard, since everybody is hit a little.

Lastly, I think the points on child care are something that we constantly get into trouble over. We try to figure out if a mother should stay home and not work until the child reaches a certain age.

Have there been any studies done about the quality of child care when a mother has the primary care for a young child plus doing a very intense job at home? The fallout at the other end also concerns me when you layer on the two responsibilities.

Ms. **Sawhill**. I don't know of any studies that have looked at the quality of child care when mothers work at home. It does seem to me though that there is a great deal of rigidity in the current employment system, the 40-hour week, the need to punch a clock or to be in a particular place at a particular time, that puts even greater strains on parents than the possible conflict between trying to accomplish both tasks at once in the home.

You have a sick child and you have to be someplace at 9 in the morning, and you wake up at 7:30, and the child has a fever of 102, what do you do? If you are home at least you can deal with that situation.

Mrs. **Schroeder**. I think that is a very difficult problem. Women are being cast in both roles and find that their life is not satisfactory. They can't be mother 100 percent of the time, nor can they be professionals with the demands society puts on them.

They are caught in a bind on both sides. I think one of the biggest problem groups we have is corporate executives. That "professionalism" mandates that you are not supposed to worry about the child with a 102 fever, except that you do. You are constantly caught in that push-pull, and it is still the mother, according to all the studies, that 90 percent of the time is caught in that. If there is anyone who has answers to this dilemma.

Ms. **Pearce**. I don't think there is a single answer. I would like to emphasize that children are different and mothers are different. We must provide choices and I think we must incorporate in those choices a greater value on the part of their own mothers and on the part of day care.

At this point, we don't. We are providing less support for that, and implicitly less value attached to the job of taking care of and raising children.

Mrs. **Schroeder**. I think that is right. One of the big problems for the women's movement is a lot of people talk about who gets stuck with the kids. That is a terrible thing. It says to the kids what some people think about them, so it is a very sensitive area.

Thank you both for being an excellent leadoff to this hearing, and we are appreciative.

Mr. COATS. I wonder if I could ask unanimous consent that the record be kept open for submission of additional questions?

Mrs. SCHROEDER. Without objection.

The next panel we have before us is the health panel. Dr. Karen Davis, who is a professor and chairman of the Department of Health of the School of Hygiene and Public Health, Johns Hopkins University, and Dr. Jack A. Meyer, from the American Enterprise Institute for Public Policy Research. Carol Frances is chief economic adviser, National Education Industry Group. And they will talk about education costs.

We will put your full statements in the record. If you would like to summarize, it would be very helpful so we can get to the questions.

Thank you again for being here. Dr. Davis, we will let you lead off.

STATEMENT OF KAREN DAVIS, PROFESSOR AND CHAIRMAN, DEPARTMENT OF HEALTH POLICY AND MANAGEMENT, SCHOOL OF HYGIENE AND PUBLIC HEALTH, JOHNS HOPKINS UNIVERSITY

Ms. DAVIS. Thank you for this opportunity to testify on the impact of health care on families and children. The United States stands virtually alone among major industrialized countries in failing to protect its citizens from the potentially crushing financial burden of high health care costs.

As a result, some American families incur catastrophic expenses with little or no assistance from private health insurance or public programs in meeting their bills. Others simply must forego important health care for their families because of inability to pay.

Health expenditures have been increasing at a particularly rapid rate in the last 3 years. In 1979, the United States spent $215 billion on health services, supplies, research and construction, or 8.9 percent of the gross national product.

In 1982, the United States spent $322 billion, or 10.5 percent of the GNP. In just 3 short years, health spending increased by 50 percent, considerably faster than growth in family incomes.

This rapid inflation in health care costs comes at a time when many families are finding it increasingly difficult to cope with health care bills.

Unemployment brings with it not only loss of income, but for many families loss of employer health insurance coverage as well. In addition, cutbacks in Federal, State and local health programs are reducing the availability of free or reduced cost health care for those without health insurance.

The financial burden of high health care costs is unevenly distributed. Public programs pick up 42 cents out of every dollar of national spending for health.

Private health insurance picks up about a quarter of all health expenditures. The remaining one-third is paid directly by individuals out of their own pockets. These out-of-pocket expenses are particularly burdensome for those Americans who have no health insurance.

At any one point in time, there are over 25 million people without health insurance, but as many as 34 million may be uninsured for some period of time during the year. The poor, minorities, young adults and rural residents are more likely to be uninsured than others.

Employment status and occupation are important factors in insurance coverage. For example, 45 percent of employees in firms of 25 or fewer employees do not have employer health insurance compared with 1 percent in firms with more than 1,000 employees.

Even with medicaid, many low-income families do not have public or provide insurance coverage. Medicaid, in fact, covers only 40 percent of the poor. Many poor families are excluded from medicaid because of low State income eligibility levels or categorical restrictions that exclude many two-parent families, single individuals, and childless couples.

Unemployed families frequently cannot meet the severe asset restrictions set by medicaid.

A family's direct expenses for health care include the cost of health insurance premiums and out-of-pocket payments to physicians, hospitals, pharmacies, and other providers of care.

The average annual family premium for employer-based health insurance is $1,620 in 1983. On average, the employer contributes 80 percent of the premium cost and the employee pays the remainder, roughly $325 annually in 1983.

For those without employer-based insurance, individually purchased insurance is substantially more expensive.

The uninsured and inadequately insured can and do incur rather substantial direct out of pocket expenses for health care. One in 10 families representing 18 million people spent over 10 percent of its income on out-of-pocket health expenses in 1977.

Over 3 million families, or 7.6 million people, had out-of-pocket payments exceeding 20 percent of family income. For such families, health care expenses are truly catastrophic.

Low-income families pay slightly more for health care out of pocket than do higher income families, and considerably more as a fraction of their income. In 1977, families with incomes below $3,000 paid on average 10.2 percent of their incomes on health care, compared with an average payment of 1.7 percent of income for those families with incomes in excess of $15,000.

For those with some insurance, coverage is typically better for inpatient hospital care than for preventive or primary health care services. Young families with children frequently find that care from a physician or other types of preventive and primary care are not covered by insurance plans.

Over half of the cost of physician's services is paid directly by families, as compared with about 10 percent for hospital services. Families pick up directly an even greater proportion of physician's charges for children under the age of 6.

Most of the cost of pediatric care is borne directly by families. In 1977, 73 percent of all pediatric care expenditures were paid by families, 15 percent by private health insurance, and 10 percent by medicaid.

Other types of health expenditures can also pose important financial burdens for families. Three-fourths of the cost of prescribed drugs are borne directly by families.

Five percent of the population spent $100 or more on prescribed medicines. Dental care is one of the most expensive types of personal health care services. Families pay 73 percent of the cost of dental care.

Five percent of people spent over $200 on dental care in 1977. Families pay 84 percent of the cost of eyeglasses out of pocket.

Both dental care and vision care are much more common for higher income families than lower income families, undoubtedly reflecting the tendency of lower income families to postpone or do without expensive, uninsured care.

All Americans share in the financial burdens imposed by rising health care prices. Unfortunately, the burden falls disproportionately on the uninsured and low-income families who devote a large share of their limited incomes to health services.

Many of these families must make difficult choices between expenditures for health care and food, clothing, and other essential items in the family budget. Preventive care or early treatment for illness may be postponed or foregone even though postponed care can later result in more complex and serious illness.

While the financial burden of health care is a serious public policy concern, even more troubling is the fact that absence of insurance or inadequate insurance can prevent families and their children from obtaining important care.

Those who are uninsured receive less care than those who have insurance to help meet the cost of care. Many of the uninsured children who do receive care obtain episodic and fragmented care in response to an immediate crisis. They seldom receive the full range of preventive and primary care services needed for proper growth and development.

High health care costs, coupled with inadequate health insurance coverage pose serious problems for important segments of the population. The absence of universal health insurance coverage and effective controls on health care costs create serious strains in our society.

These strains are felt most acutely by the uninsured poor, who must worry about a sick child, an adult afflicted with a deteriorating chronic health condition, or a pregnant mother, going without needed medical assistance.

As serious as these strains have been in the last few years, the years ahead promise to strain the fabric of our social lives even more. Major reductions in funding for health services for the poor have been made in the last 2 years; further reductions are likely.

High unemployment and fiscal pressures on State and local governments intensify the effect of Federal cutbacks. Nor can the private sector be expected to bridge this gap. The health industry is increasingly becoming an entrepreneurial business endeavor, with little room for charitable actions.

Major disparities in access to care and excessive financial burdens for health care expenses are unacceptable in a decent and humane society. Several actions are required to assure progress toward adequate access to care for all.

Medicaid coverage should be expanded to provide basic insurance coverage for all low-income individuals. Even with tight economic and budgetary pressures, small steps can be taken immediately to expand coverage for the most vulnerable uninsured, low-income mothers and infants and the unemployed.

The children of America in particular ought to be protected from the consequences of impaired access to care and assured a healthy start in life. Insurance coverage, both public and private, should provide incentives for greater use of preventive services and improved access to primary care services.

The $200 million set aside in the House budget resolution is an important step to provide expanded medicaid coverage for vulnerable children and their mothers.

Financing alone is not enough to correct important barriers to care. Resource development must be coupled with improved financing in underserved areas to assure that the needed providers are available.

Continued funding and expansion of primary care programs such as community and migrant health centers and the National Health Service Corps would help assure the availability of services for residents of high poverty, medically underserved communities.

Reform of medicaid, medicare, and private health insurance plans should be undertaken to encourage cost-effective primary care and adequate financial protection. Continuing efforts should be made to institute effective controls on the cost of hospital and physician services for all patients, not just those covered by one program such as medicare.

Continuing experimentation with new prospective payment methods to encourage efficiency in the health care system must be pursued.

Such a positive agenda will require intensive effort and determination to accomplish, but a carefully phased-in approach to dealing with problems of financial coverage, physical access to care, and efficiency in the health sector is feasible and should receive top priority for public policy action.

Thank you.

[Prepared statement of Karen Davis follows:]

PREPARED STATEMENT OF KAREN DAVIS, PH. D., CHAIRMAN, DEPARTMENT OF HEALTH POLICY AND MANAGEMENT SCHOOL OF HYGIENE AND PUBLIC HEALTH, JOHNS HOPKINS UNIVERSITY

THE COST OF HEALTH CARE FOR FAMILIES

Thank you for this opportunity to testify on the impact of health care costs on families and children. The United States stands virtually alone among major industrialized countries in failing to protect its citizens from the potentially crushing financial burden of high health care costs. As a result, some American families incur catastrophic expenses with little or no assistance from private health insurance or public programs in meeting their bills. Others simply must forego important health care for their families because of inability to pay.

Today, I would like to summarize for the Committee major trends inhealth care costs, indicate who bears the financial burden of these costs, and present information on the distribution of out-of-pocket health expenses among families. Of particular concern is the impact of gaps in insurance coverage on the cost and use of preventive and primary care services for children. I will conclude with some comments on steps that the Congress could take to alleviate the financial burden of high health care costs on families.

Trends in health expenditures

Health expenditures have been increasing at a particularly rapid rate in the last three years. In 1979, the U.S. spent $215 billion on health services, supplies, research, and construction, or 8.9 percent of the Gross National Product. In 1982, the U.S. spent $322 billion, or 10.5 percent of the GNP. In just three short years, health spending increased by 50 percent—considerably faster than inflation in the economy and than growth in family incomes.

This rapid inflation in health care costs comes at a time when many families are finding it increasingly difficult to cope with health care bills. The continuing high rate of unemployment has serious implications for the health sector. Unemployment brings with it not only loss of income, but for many families loss of employer health insurance coverage as well. In addition, cutbacks in federal, state, and local health programs are reducing the availability of free or reduced cost health care for those without health insurance.

The financial burden of high health care costs is unevenly distributed. Public programs pick up 42 cents out of every dollar of national spending for health. Medicare for the elderly and disabled and Medicaid for some low-income families account for nearly three-fourths of all public spending, or $83 billion in 1982. These programs provide important protection for 48 million Americans. Among the employed, over 80 percent have private health insurance coverage through their employer. Private health insurance picks up about a quarter of all health expenditures. The remaining one-third is paid directly by individuals out of their own pockets. These out-of-pocket expenses are particularly burdensome for those Americans who have no health insurance, but important gaps in private health insurance coverage and public programs can result in burdensome out-of-pocket expenses even for those with some insurance coverage.

At any one point in time, there are over 25 million people without health insurance, but as many as 34 million may be uninsured for some period of time during the year. Most of the elderly have coverage from Medicare. Nearly one-fifth of the non-aged population is uninsured for some or all of the year. The poor, minorities, young adults, and rural residents are more likely to be uninsured than others. Over one-quarter of all blacks and other minorities are uninsured during the year—a rate 1½ times that of whites.

Employment status and occupation are important factors in insurance coverage. For example, 45 percent of employees in firms of 25 or fewer employees do not have employer health insurance compared with one percent in firms with more than 1000 employees. Unionized firms are six times more likely to have employee health insurance than non-unionized firms. About 31 percent of low-wage workers do not receive employer-based health insurance. Nearly one-quarter of all agricultural workers are uninsured during the year.

Even with Medicaid many low-income families do not have public or private insurance coverage. Twenty-seven percent of families with incomes below 125 percent of the federal poverty level are uninsured. Medicaid, in fact, covers only 40 percent of the poor. Many poor families are excluded from Medicaid because of low state income eligibility levels or categorical restrictions that exclude many two-parent families, single individuals, and childless couples. Unemployed families frequently can not meet the severe asset restrictions set by Medicaid. Thus, many low income families must simply go without coverage or purchase costly and inadequate individual private health insurance coverage.

Financial burden of health costs on families

The financial burden of health care costs for families is very unevenly distributed. For some families, employers provide comprehensive health insurance coverage at little direct cost to the employee. Others may pay the full premium for individual private health insurance coverage and still face high bills for excluded services and coinsurance and deductibles.

A family's direct expenses for health care include the cost of health insurance premiums and out-of-pocket payments to physicians, hospitals, pharmacies, and other providers of care. The average annual family premium for employer-based health insurance is $1,620 in 1983. On average, the employer contributes 80 percent of the premium cost and the employee pays the remainder, roughly $325 annually in 1983. For those without employer-based insurance, individually purchased insurance is substantially more expensive. Typically, an individual insurance plan pays out slightly more than half of the premium in benefit payments, and retains the rest for administrative and sales expenses, or profits.

The uninsured and inadequately insured can and do incur rather substantial direct out-of-pocket expenses for health care. One in ten families representing 18 million people spent over 10 percent of its income on out-of-pocket health expenses in 1977. Over 3 million families, or 7.6 million people, had out-of-pocket payments exceeding 20 percent of family income. For such families, health care expenses are truly catastropic.

Seventy-five percent of the U.S. population had some out-of-pocket expense for health care in 1977. Nearly 25 percent of families had out-of-pocket expenses exceeding $500, and 10 percent had expenses exceeding $1,000 in 1977.

Low-income families pay slightly more for health care out-of-pocket than do higher income families, and considerably more as a fraction of their income. In 1977, families with incomes below $3,000 paid on average 10.2 percent of their incomes on health care, compared with an average payment of 1.7 percent of income for those families with incomes in excess of $15,000.

Given the substantial financial burdens faced by families for health care services, it is not surprising that a recent American Medical Association survey found that 27 percent of Americans indicate that they are having difficulty in handling the expenses of even routine medical care. Nor is it surprising that a recent report by the President's Commission for the Study of Ethical Problems in Medicine and Biomedical and Behavioral Research reported testimony of numerous working families who were financially devastated by out-of-pocket medical expenses.

Preventive and primary health care for families and children

For those with some insurance, coverage is typically better for inpatient hospital care than for preventive for primary health care services. Young families with children frequently find that care from a physician or other types of preventive and primary care are not covered by insurance plans. While the cost of a given visit to the physician is far less than an extensive hospital stay, ambulatory care charges can mount up for families with several children or with a chronically ill child.

Over half of the cost of physician's services is paid directly by families, as compared with about 10 percent for hospital services. Private health insurance picks up 23 percent of physician expenditures, while Medicare and Medicaid cover another 13 percent. Families pick up directly an even greater proportion of physician's charges for children under the age of 6. Most of the cost of pediatric care is borne directly by families. In 1977, 73 percent of all pediatric care expenditures were paid by families, 15 percent by private health insurance, and 10 percent by Medicaid.

Other types of health expenditures can also pose important financial burdens for families. Three-fourths of the cost of prescribed drugs are borne directly by families. Two-thirds of all children under the age of 6 have at least one prescription per year, and for those with prescriptions the average number per year is 4.3. The mean charge per prescription was $6.25 in 1977. Five percent of the population spent $100 or more on prescribed medicines. Dental care is one of the most expensive types of personal health care services. Families pay 73 percent of the cost of dental care. The mean annual expense per person receiving dental care was $44 per visit. Five percent of people spent over $200 on dental care in 1977. Families pay 84 percent of the cost of eyeglasses out-of-pocket. The mean annual expense per person receiving vision care was $76 in 1977. Both dental care and vision care are much more common for higher income families than lower income familes—undoubtedly reflecting the tendency of lower income families to postpone or do without expensive, uninsured care.

All Americans share in the finanical burdens imposed by rising health care prices. Unfortunately, the burden falls disproportionately on the uninsured and low income families who devote a large share of their limited incomes to health services. Many of these families must make difficult choices between expenditures for health care and food, clothing, and other essential items in the family budget. Preventive care or early treatment for illness may be postponed or foregone even though postponed care can later result in more complex and serious illness. Ironically, once an individual is ill enough to require hospitalization, insurance coverage will often be available to assist the family in paying its medical bills.

While the financial burden of health care is a serious public policy concern, even more troubling is the fact that absence of insurance or inadequate insurance can prevent families and their children from obtaining important care. Those who are uninsured receive less care than those who have insurance to help meet the cost of care. Children in families with insurance receive 65 percent more physicians' care and 80 percent more hospital care than children in families without insurance.

Many of the uninsured children who do receive care obtain episodic and fragmented care in response to an immediate crisis. They seldom receive the full range of preventive and primary care services needed for proper growth and development.

Policy implications

High health care costs coupled with inadequate health insurance coverage pose serious problems for important segments of the population. The absence of universal health insurance coverage and effective controls on health care costs create serious strains in our society. These strains are felt most acutely by the uninsured poor, who must worry about a sick child, an adult afflicated with a deteriorating chronic health condition, or a pregnant mother, going without needed medical assistance. It strains our image as a just and humane society when significant portions of the population endure avoidable pain, suffering, and even death, because of an inability to pay for health care. The financial burdens caused by uninsured health expenses add to the heavy emotional load borne by families with a sick family member.

As serious as these strains have been in the last few years, the years ahead promise to strain the fabric of our social life even more seriously. Major reductions in funding for health services for the poor have been made in the last two years; further reductions are likely. High unemployment and fiscal pressures on state and local governments intensify the effect of federal cutbacks. Nor can the private sector be expected to bridge this gap. The health industry is increasingly becoming an entrepreneurial business endeavor—with little room for charitable actions.

Major disparities in access to care and excessive financial burdens for health care expenses are unacceptable in a decent and humane society. Several actions are required to assure progress toward adequate access to care for all. Medicaid coverage should be expanded to provide basic insurance coverage for all low income individuals. Even with tight economic and budgetary pressures, small steps can be taken immediately to expand coverage for the most vulnerable uninsured—low income mothers and infants and the unemployed. The children of America in particular ought to be protected from the consequences of impaired access to care and assured a healthy start in life. Insurance coverage, both public and private, should provide incentives for greater use of preventive services and improved access to primary care services. The $200 million set aside in the House Budget Resolution is an important step to provide expanded Medicaid coverage for vulnerable children and their mothers.

Financing alone is not enough to correct important barriers to care. Resource development must be coupled with improved financing in underserved areas to assure that the needed providers are available. Continued funding and expansion of primary care programs such as community and migrant health centers and the National Health Service Corps would help assure the availability of services for residents of high poverty, medically underserved communities.

Reform of Medicaid, Medicare, and private health insurance plans should be undertaken to encourage cost-effective primary care and adequate financial protection. Continuing efforts should be made to institute effective controls on the cost of hospital and physician services for all patients—not just those covered by one program such as Medicare. Continuing experimentation with new prospective payment methods to encourage efficiency in the health care system must be pursued.

Such a positive agenda will require intensive effort and determination to accomplish—but a carefully phased in approach to dealing with problems of financial coverage, physical access to care, and efficiency in the health sector is feasible and should receive top priority for public policy action. Thank you.

Mrs. **Schroeder**. Thank you very much.

We are very pleased to have you, Dr. Meyer.

STATEMENT OF JACK A. MEYER, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Mr. **Meyer**. Thank you.

I would like to speak informally this morning. I have submitted a recently published book to your staff for background information. Today I would like to make four main points.

First, I think overall budget cutting by the Federal Government has been rather inequitably distributed. I mention this as a backdrop to examining the health-care sector, because I think we need to look at the health-care sector in a broader context.

Second, the health-care sector is kind of a microcosm of this equity problem. We have been cutting the part of Federal health assistance targeted to low-income households while hardly touching benefits going to all income groups in the health sector.

Third, I favor an incentives-based approach to enhance both the equity and efficiency of the health-care system. This features more choice of plans, limits on subsidies, better targeting of subsidies, and less reliance on Government regulations.

Fourth, I have to say that both my own proposals and those of people who have a different point of view favoring Government regulations are inadequate in the short run for meeting the serious financial problems in our health-care programs.

I prefer my approach to mitigating projected deficits because I think, in the long run, it leads to more rational and realistic decisions. But we have made in health care, as in our overall budget, promises to people that we cannot keep with our current resources. We are going to have to face sober choices between trimming benefits to those who can afford some greater share of the sacrifice and raising taxes to bring our commitments in line with our resources.

I am not advocating higher taxes, but if we are going to avoid them, we had better take another look at what we are promising to folks now and in the 21st century.

I could summarize by saying that as a society, we want it all, but we don't want to pay for wanting it all. The result of this paradox, as I am sure you all know, is the kind of deficits that we have this year, next year and projected into the future. These deficits, very frankly, frighten me as an economist. I was alarmed this morning, driving into this hearing, to hear a report on the radio. I would be pleased to hear from both sides of the aisle that it is incorrect. The report said that Congress is about through with major changes in Federal spending until the election and has about given up on ways to get the deficit under control.

I hope that is false, and hope further budgetary changes are done fairly.

I have done work which aggregates social programs by categories of Federal programs. This work divides the programs into those going to all economic groups—mostly social security, medicare, veterans, civil service retirement, or what I call the battleships and the destroyers of Federal social programs—versus those targeted to low-income groups—which I would call the tugboats. The means-tested "tugboats" account for about 1 of 10 Federal dollars spent. Look at what has been happening to spending for those two groups of programs, and you will all see a rather dismal, dismaying trend.

If you look at the share of the budget going to the former group, the non-means-tested group, it is projected to be about the same share in 1988, as it was in 1980, namely, a little over 40 percent of all Federal spending.

By contrast, the share going to means-tested or low-income-oriented programs has fallen from about 13.3 percent of Federal spending in 1980 to about 9 percent in 1988.

You can look at that fall as 4.5 percentage points or as a decline of about a third in the share of our Federal budget going to low-income programs.

I think that this disparity has been particularly harsh on the nearpoor and working poor families, and I know that youth and families are the focus of this committee. We seem to have divided the poor in two groups, those who are dependent, around whom we draw the safety net, and those who seem independent and who are judged to be able to get along without any Government assistance. This distinction is inequitable and unwise.

For many families, marginal Federal assistance of $30, $40, $50 a month on top of meager earnings can make the difference that keeps them in the work force, that keeps them off dependency and gives them on some dignity.

So I think that we need to reorient our priorities and not give up on budgetcutting. The only way I think we can sustain the fiscal austerity needed for sound economic policy is to share it more fairly. If we do not make this change soon, we will see a return to the policies of the seventies. These policies relied too heavily on hiding the cost of our commitments and over heating the economy. We would offer promises on an economywide basis, and then pay the fiddler later in terms of higher taxes and inflation.

I hope we don't go back to that strategy, but I think in order to avoid going back to that, we have to present the American people with a sense of fair play in our belt tightening.

Let me say a word or two about health care more specifically.

The reason I suggested that health care presents a microcosm of this fairness problem can be illustrated by the following types of figures. The largest Federal health program, as you know, is medicare. I think the budget figures show that in the coming fiscal year medicare will be about a $60 billion program.

The second largest Federal program is not medicaid, if you permit me my loose definition of programs. It is the tax subsidy associated with employer contributions to employee health insurance being fully excluded from taxation, without limit, by working people.

I am not against this subsidy, but I am against an open-ended subsidy that you can ride up and get more help the higher your income.

That subsidy has been estimated in a recent study by Dr. Gail Wilensky and Dr. Amy Taylor to amount to $31 billion 1983.

The third program on the list is the Federal Government's contribution to medicaid, which is around $20 billion. Of course, States contribute to medicaid, too.

My point is that this third largest program is the one that we have been cutting the most. We have not touched the tax subsidies. We have only now begun to put into place some serious reform proposals for medicare.

I think these proposals are inadequate.

You probably know that the Congressional Budget Office and the trustees of the Social Security Administration have projected that the medicare or HI trust fund has only a few more years before it is exhausted.

The latest trustee report says 1990 or 1991, while CBO had a little earlier figure. Even more sobering is the projection by CBO of a deficit of some $300 billion in that program by 1994.

Now, tinkering around the edges with the program is not going to fix it up and we have millions of Americans depending on that program.

So I suggest we take a good, hard look, at meeting this deficit, and I have ways of doing that to propose, if there is more time. We cannot just have a doomsday philosophy as we did in social security and take each of these battleships to the brink before deciding how to make a midcourse correction.

Nor should we, continue to torpedo the tugboats.

Finally, I would close by saying that the steps for medicare taken by Congress in March 1983, the social security amendments are a step in the right direction, but I think they have been oversold and are not able, by themselves, to avert this crisis.

They may delay it a few more months or a year or so. They may provide some good management tools, but I think we need to start now planning for that deadline and start thinking about how our overall health policy and, indeed, our overall social policy, could be made more fair.

Mrs. **Schroeder**. Dr. Carol Frances, we are happy to have you with us. Dr. Frances is chief economic adviser for the National Education Industry Group, of Coopers & Lybrand. I hope I pronounced that correct. We are very happy to have you here dealing with higher education.

STATEMENT OF CAROL FRANCES, CHIEF ECONOMIC ADVISER NATIONAL EDUCATION INDUSTRY GROUP, COOPERS & LYBRAND

Ms. **Frances**. Thank you very much for the privilege of appearing. In extending the invitation, the staff requested that I comment on the facts with respect to trends in the cost of going to college; in relation to the ability of families to pay these costs; on the impact of these cost trends on college enrollments, and finally on the direction these trends will take in the future.

I would like to summarize the trend data very briefly.

I think the fact that the task force is undertaking this inquiry is especially important because the conventional wisdom about trends in the ability to pay for college is, I believe, seriously in error.

There are two basic propositions that are widely held and that form the backdrop for policy development with respect to student aid and to the role of the Federal Government in providing assistance to higher education, as well as more broadly with respect to overall financing of higher education.

The two propositions are these:

First, that college tuitions have not increased any faster than median family income, so that, consequently, families are not now experiencing any greater difficulty in paying for college than they have in the past.

And the second proposition is that student financial aid has increased dramatically.

These propositions are used as the basis for proposals to cut student-aid programs and for opposing extending assistance to middle-income students.

I think it is extremely important to take another look at these propositions because they are seriously warped by the failure to take inflation into proper account, and they do not provide an adequate basis for public-policy development.

Government publications, including publications of CBO and the National Center for Education Statistics, cite long-term trends in college tuition as a percentage of median family income, and as they are calculated, the average student charges in relation to income have not increased. They have, in fact, declined.

This type of analysis is, however, grossly incomplete, because it does not take into account inflation in all other family expenditures. A broader analysis would show that almost all essential household expenditures have gone up in price faster than the overall Consumer Price Index, and they have gone up faster than income. Because the costs of buying necessities have gone up faster than income, we have had a drastic decline in discretionary income available to invest in higher education—and the ability to pay for college is much more directly related to discretionary income than it is to total income.

Estimates of discretionary income are hard to come by—and to some extent the estimates are arbitrary, as it is necessary to decide what is more essential and what is less essential for a family to spend its money on.

In attempting to develop estimates of discretionary income, I started with the survey of consumer expenditures that was conducted in 1972–73 by the Bureau of Labor Statistics. I chose this particular survey because it was used as the basis for establishing the spending patterns used to weight the items in the Consumer Price Index. I took the expenditures in this survey and divided them into two categories: more essential and less essential. The more essential categories include food, housing, utilities, clothing, transportation, health care, and insurance. Next, I subtracted expenditures for these items from total income in the base year of 1972. The difference is an estimate of discretionary income in the base year.

Then, I applied the index of price increases from 1972 to 1981 relating to each of the essential expenditures, and subtracted the essential expenditures adjusted for inflation from the 1981 median family income, to derive a comparable estimate of discretionary income in that year for middle-income families.

These data indicate that real discretionary income actually available to invest in college has decreased drastically—while the conventional wisdom holds that tuition has increased just about as fast as median family income, and that, consequently, there has been no increase in pressure in paying for college. An alternative view, which I think is more appropriate, that relates tuition to discretionary income, shows that tuition has risen substantially as a percentage of discretionary income. This would indicate that, contrary to the conventional wisdom, there has been a very substantial increase in the pressure experienced by families in paying for college.

This assessment, based on spending categories in the Consumer Price Index, probably understates the actual increase in financial pressure on families. The Consumer Price Index, you may know, does not include taxes.

This would indicate that, contrary to the conventional wisdom, there has been a very substantial increase in the pressure experienced by families in paying for college.

Though there have been reductions in the personal income tax to compensate for bracket creep caused by inflation, we still have increases in the social security tax which have continued to erode the purchasing power of family income.

The median family income in 1973 was about $12,000. To have the same real income in 1983, that family would have to earn over $27,000. (The current median family income is several thousand dollars less than this, however, because over the decade we have had an erosion of median family income in real dollars.) In fact, if you believe the income statistics, and if you accept the use of the Consumer Price Index to adjust the purchasing power of median family income for inflation, you would find that median family income peaked in 1969.

In 1973, a family with one earner who earned $12,000 would have paid $632 in social security taxes. By 1983, that earner with the same real income would be paying $1,818 in social security taxes.

The social security tax burden has become even greater when a family has had to increase the number of wage earners to achieve its income, which is often the case when a mother goes to work to help pay for her children's college education.

Social security taxes have increased much faster than the Consumer Price Index. Taking these taxes into account further decreases the discretionary income available to pay for college.

The second major proposition that characterizes the economic environment within which Federal policy is made with respect to financing higher education holds that total expenditures for student aid have increased substantially since the enactment of the programs to promote greater access to college.

Public officials across the entire political spectrum cite increases in student aid from about $1 billion in the early seventies to more than $6 billion in the 1980's. Consequently, student aid has become a prime focus of budget-balancing efforts.

Growth of student aid programs during the early years was accounted for in substantial part by expanding eligibility as successive classes of students become eligible for aid. As the Department of Education student aid programs expended, however, we had a drastic contraction in veterans' educational benefits as the veterans moved through their period of eligibility. In fact, the veterans' educational programs contracted by billions of dollars, offsetting a large part of the increases which the Congress has appropriated for the Department of Education student aid program. Further, in recent years, a substantial share of the increase in the dollars labeled as student aid, actually go to pay for increases in the special allowance and inschool interest subsidies in the guaranteed student loans. The special allowance is pegged to the Treasury bill rate and represents increases in the cost of borrowing resulting from monetary policies rather than increased commitment to help students.

This "increase" in student assistance has gone directly to lenders, not to students, and has not reduced the cost of college to students by one penny.

If you look at the overall ability of students to pay for college, considering not only the increases in money income, but also the effect of inflation, as well as the amount of student aid that is available, all in relation to the tuition costs that students and their families must pay, we find that, in the aggregate, inflation has wiped out almost all of the increased dollar value of the student financial aid that we thought we had awarded to students to pay for college. In fact, inflation has been eroding the ability to pay for college of all students faster than student aid was increasing it for some students.

One additional point: In many discussions of student aid, people who went to college a generation ago or more speak with understandable pride of the fact that they "worked their way through college", and have asked why, if they did it, the current generation of college students cannot do it, too.

This proposition, reasonable enough on the surface, has to be assessed in terms of the amount of work time that would be required for current students to pay their costs of college, in comparison with the amount of work time needed by earlier generations of students.

I have used trends in the Federal minimum wage over the past several years as a proxy to estimate trends in the amount students are likely to be able to earn (though, obviously some will earn more, and some may earn less). And I have computed the number of hours students would have to work at the minimum wage in order to earn their tuition, room and board at different types of institutions.

The results were converted into an index of apparent self-help requirements for the students to put themselves through college. The index indicates that greater work effort to put themselves through college would be required by students now than in any period in the last 20 years.

About 20 percent more effort would be required today than in the early 1970's for students to work their way through a public college and about 30 percent more to work their way through a private college. Cast in terms of actual hours, the calculation indicates that to go to the average private university, the student would have to work full-time for a year, plus 700 hours of overtime. In sum, since the student aid programs were first funded, the costs of college have gone up faster than the wages students can earn.

To comment briefly on the impact of these trends, the first impact is increasing difficulty in paying for college with the consequence that overall college enrollments and college-going rates are lower than they would have been.

The second impact is that the college-going rates of middle-income students have been most adversely affected.

The third impact is that the decline in real income and the greater income inequality over the period, substantially increased the number of low-income families that needed student aid. Targeting of aid on the basis of need has, however, resulted in increases in the enrollment of low-income students.

According to Government statistics, from 1973, the year in which there were relatively the fewest number of families below the poverty line, to 1981, the number of poor families increased by over 2 million, or more than 40 percent. Thus, though we had a substantial increase in the enrollment of low-income students, we had a possibly even greater increase in the number of low-income families because of adverse economic trends. Consequently, college-going rates of low-income students—that is, the proportion of the total low-income college-age group enrolled in college, did not increase as expected, and may even have declined for some groups of students.

This is not, however, because of a failure of the student aid programs, but is a result, instead, of overall economic adversity. It is extremely important in correctly assessing the impact of the student aid programs to take into account that they were undermined by deteriorating economic conditions.

A fourth impact is that these trends are resulting in an income redistribution taking place within higher education, an income redistribution from those families who support students without aid to the students who are going to school with the benefit of aid.

The redistribution takes place in the form of institutionally funded student aid. As institutions are forced to raise their tuition to cover their costs, some of the students pay the full, published tuition. A portion of these tuition revenues are redistributed to those students who require aid funded through the institutions because the Federal and State student aid programs are not adequate to achieve the equal opportunity goals.

The sixth impact of these trends is that we are creating a new debtor class in America, made up of the students who have borrowed to pay for their education.

With respect to the future, we can expect that the cost of college will increase faster than the overall cost of living during the next several years, in contrast with the last decade during which the reverse was generally true. We can expect the cost of college to go up this year, for instance, in the range of 8 to 10 percent, whereas the overall consumer price index may go up at less than half that rate.

The colleges and universities have experienced a serious erosion of their resource base over the last decade, including both their financial and physical national economic policies to stimulate investment, by reducing the marginal tax rates, actually reduce the incentives for private giving to colleges and universities. Unless policies are altered to stimulate investment in higher education and to increase nontuition revenues, the only way the colleges and universities can restore their resources base in the current environment is through tuition, which is paid by students—because tuition is the only major source of revenue that the colleges and universities control.

Consequently, we can expect continued upward pressure on tuition, in spite of the decline in the overall rate of inflation. As a consequence of this, I would expect that the financial pressure on families in paying for college will be continued into the foreseeable future.

[Prepared statement of Carol Frances follows:]

PREPARED STATEMENT OF CAROL FRANCES, CHIEF ECONOMIC ADVISER, NATIONAL EDUCATION INDUSTRY GROUP, COOPERS & LYBRAND, WASHINGTON, D.C.

TRENDS IN THE ABILITY TO PAY FOR COLLEGE

Madame Chairwoman and Members of the Task Force on Economic Security: I am Carol Frances, Chief Economic Advisor to the National Education Industry Group of Coopers & Lybrand, an international public accounting firm with a major practice in higher education. This statement is based on special analyses for the National Commission on Student Financial Assistance, completed under personal contract to the Applied Systems Institute. It also draws on work I did earlier under contract for the Office of Planning and Budget Evaluation Service of the U.S. Department of Education. The conclusions I draw from the data are my own and do not necessarily represent the views of Coopers & Lybrand, the Applied Systems Institute, the National Commission, or the Department.

In extending an invitation to me to participate in this hearing, you requested that I comment on:

1. Trends in the costs of going to college and the ability of families to pay these costs,
2. The impact these trends have had on college enrollments and on college-going rates, and
3. The direction these trends will take in the future.

This is a brief summary of the results of my analyses of the trend data.

TRENDS IN THE ABILITY OF FAMILIES TO PAY FOR COLLEGE

The determination of this Task Force to establish the facts about the costs of supporting a family takes on a special importance because the conventional wisdom about trends in the ability of families to pay for college is, I believe, seriously in error.

Two propositions that are widely believed form the backdrop for public policy development with respect to the financing of higher education and the role of the federal government in providing assistance to students:

The first proposition is that college tuitions have not increased any faster than median family income so that families are not experiencing any greater difficulties now in paying for college than they have in the past.

The second proposition is that student financial aid has increased dramatically, greatly easing the financial burdens of paying for college.

These propositions have been used as the basis for proposals to cut student aid programs, and for opposing assistance for middle income students.

Both of these propositions are seriously warped by a failure to take inflation into proper account.

1. Government publications cited in discussions of student aid policy show long-term trends in college tuition as a percentage of median family income. As calculated, the average student charges as a percent of the median income for all families has not increased, but declined several percentage points for all major higher education sectors—for instance, from 32 to 31 percent for private universities and from 15 to 13 percent for public universities over the decade from 1970 to 1980. In public policy discussions, the conclusion is drawn from these trend data that it is not getting any harder to pay for college.

This type of analysis is grossly incomplete because it does not take into account inflation in all other family expenditures. A broader analysis would show that almost all household purchases have gone up in price faster than college tuition. Prices for the basic necessities of family living have gone up much faster than the overall price index, and they have also gone up much faster than income.

The ability to pay for college is much more directly a function of discretionary income after paying for necessities, than it is of total income. Because the costs of buying necessities have gone up faster than income, the amounts remaining for discretionary spending have declined substantially over the last decade.

To develop estimates of discretionary income, the goods and services included in the Survey of Consumer Expenditures, which constitutes the basis for the market basket weights for the Consumer Price Index, were grouped into two categories—more essential and less essential.

The more essential expenditures—of food, housing, utilities, clothing, transportation, health care, and insurance—were subtracted from total income in the base year of 1973, to derive an estimate of discretionary income in 1973. Then the price increases in these spending categories from 1973 to 1981 were applied to the base year expenditures and the inflated amounts spent for the more essential items were subtracted from 1981 money income to derive a comparable estimate of discretionary income in 1981.

These data, with spending for essentials adjusted for inflation, show that real discretionary income actually available to invest in a college education has decreased drastically.

Tuition is estimated to have risen from under one-third to over two-thirds of discretionary income over the last decade. This would indicate that there has been a substantial increase in the pressure experienced by families in paying for college.

2. The erosion of the ability of the family to pay for college is probable much greater than is indicated by this analysis of trends in discretionary income because that analysis is based only on the spending categories included in the consumer price index. The consumer price index does not include taxes.

The recent reductions in the personal income tax have helped to compensate for bracket creep after inflation drove money income into higher tax brackets. But increases in the social security tax continue to erode purchasing power of the family income.

The median family income was about $12,000 in 1973. To have the same real income in 1983, that family would have to have over $27,000 in money income. In 1973 one wage earner in the median income family would have paid $632 in social security taxes. In 1983, that earner with the same real income would be paying $1,818 in social security taxes. The social security tax burden has become even greater when a family has had to increase the number of wage earners to achieve its income—which may often be the case when the mother goes to work to help pay for her children's college education.

Social security taxes have increased about 50 percent faster than the consumer price index, and taking them into account further decreases discretionary income to pay for college.

3. The total expenditures for student aid appear to have increased substantially since the enactment of the programs to promote greater access to college. Public officials cite increases in student aid for about $1 billion in the early 1970s to more than $6 billion in the early 1980s. A fuller accounting would include three additional observations:

The growth in dollars of aid awarded was accounted for in part by expanded eligibiltiy in the early years as successive classes of students became eligible for aid.

As student aid programs expanded, veteran's educational benefits contracted by billions of dollars, offsetting a large proportion of the increase in student aid to pay for college, and

In recent years, a substantial share of the increase in the dollars labeled as student aid were actually increases in the special allowance in the federally guaranteed student loans pegged to the Treasury bill rate—representing the staggering increases in the cost of borrowing resulting from monetary policies rather than increased commitment to equal educational opportunity.

Though the total amount of student aid has increased, the amount of the average award has not increased as fast as the costs of college paid by each student. Consequently, in the aggregate, inflation has wiped out almost all of the dollar value of student aid awarded and left students, particularly those students without aid, with increasing difficulties in paying for college. Inflation was eroding the ability to pay for college of all students, faster than student aid was increasing it for some students.

4. Some of the members of earlier generations of college students who worked their way through school argue that if they could do it, so can the current generation of students. In recent student aid policy debates, self-help considerations are figuring more and more prominantly.

To develop information on trends in the ability of students to work their way through college, comparisons were made between the wages students could earn and their costs of college if they selected a four-year public institution.

The minimum wage was taken as a rough proxy for the amount students could earn per hour. The number of hours it would take per year to earn tuition, room, and board, was converted into an index of self-help effort required for students to put themselves through college without other assistance.

This index indicates that greater work effort would be required by students at the current time to put themselves through college than in any other period in the last twenty years. About twenty percent more effort would be required today than in the early 1970s when the student aid programs were first funded, because the costs of college have gone up faster than the minimum wages students can earn.

IMPACT OF THESE TRENDS

1. As a result of the increasing difficulty in paying for college, overall college enrollments and college-going rates are lower than they would have been.

2. The college-going rates of the middle income students have been most adversely affected.

3. Because of the increases in the student aid available to the lower income students, the enrollment of these students increased substantially.

4. Because of the decline in real income, and the greater inequality of income over the period since the enactment of the student aid programs, the number of low income families actually increased only the last ten years. From 1973—the year in which there were the fewest number below the poverty-line—to 1981, the number of poor families increased by over 2.0 million, or over 40 percent. Thus, while the enrollment of low income students in college increased as a result of student aid, the total number of low income families increased even more as a result of adverse economic trends. Consequently, college-going rates of low income students may have decreased, not because of a failure of student aid programs, but as a result of overall economic adversity.

FUTURE TRENDS

1. While the cost of college did not increase as fast as the cost of living over the last five years, we can expect that over the next five years, the reverse will be true. This coming year we can expect tuitions to go up in the range of 8 to 10 percent while the overall price index may go up at less than half that rate.

The colleges and universities have experienced a serious erosion of their resource base, including both the financial and the physical capital. Yet national economic policies to stimulate investment in the private sector, by reducing tax rates, actually reduce the incentives for private giving to the colleges and universities. Unless policies are altered to stimulate investment in higher education from nontuition sources, the only major source of revenues over which the colleges and universities have a measure of control is tuition. Consequently, we can expect continued upward pressure on tuitions in spite of the decline in the overall rate of inflation.

As a consequence, the financial pressure on families in paying for college can be expected to continue into the foreseeable future.

TRENDS IN THE ABILITY TO PAY FOR COLLEGE

[Percent increases—selected periods, 1963–83]

	Money income	Cost of living	Real income	Tuition	Enrollment
1963 to 1968	38.8	13.6	24.5	25.7	54.5
1968 to 1973	39.6	27.7	11.9	41.7	28.0
1973 to 1978	46.4	46.8	−0.4	34.5	17.5
1978 to 1983	[1] 38.0	52.2	−14.0	58.0	10.8

[1] Estimated.

TRENDS IN MEDIAN FAMILY INCOME, 1960–81

	Number of families (thousands)	Median family income	
		Current dollars	Constant 1981 dollars
Year:			
1960	45,539	$5,620	$17,359
1961	46,418	5,735	17,435
1962	47,059	5,956	17,907
1963	47,540	6,249	18,563
1964	47,956	6,569	19,262
1965	48,509	6,957	20,054
1966	49,214	7,532	21,108
1967	50,111	7,933	21,609
1968	50,823	8,632	22,566
1969	51,586	9,433	23,402

TRENDS IN MEDIAN FAMILY INCOME, 1960–81—Continued

	Number of families (thousands)	Median family income	
		Current dollars	Constant 1981 dollars
1970	52,227	9,867	23,111
1971	53,296	10,285	23,097
1972	54,373	11,116	24,166
1973	55,053	12,051	24,663
1974	55,698	12,902	23,795
1975	56,245	13,719	23,183
1976	56,710	14,958	23,898
1977	57,215	16,009	24,027
1978	57,804	17,640	24,591
1979	58,426	19,661	24,635
1980	60,309	21,023	23,204
1981	61,019	22,388	22,388

Source: U.S. Department of Labor, Bureau of Labor Statistics.

TRENDS IN SOCIAL SECURITY TAX PAID

[Middle income family with one wage earner]

	Annual money income equal to $12,000 real income in 1973	Social security maximum taxable earnings	Social security employee tax rate	Social security tax paid by middle income family with one wage earner
1973	$12,000	$10,800	5.85	$631.80
1974	13,320	13,200	5.85	772.70
1975	14,532	14,100	5.85	824.85
1976	15,375	15,300	5.85	895.05
1977	16,374	16,500	5.85	957.88
1978	17,635	17,700	6.05	1,070.85
1979	19,628	22,900	6.13	1,365.58
1980	22,277	35,900	6.13	1,365.58
1981	24,594	29,700	6.65	1,635.50
1982	26,094	32,400	6.70	1,748.30
1983	27,138	35,700	6.70	1,818.25

Source: Percent increase 126.2; 1973–83—187.8.

Mrs. SCHROEDER. Thank you.

As the three of you were testifying, Congressman Coats and I were up here saying we are not sure we can afford our families.

I want to thank all of you for your testimony.

Congressman Coats?

Mr. COATS. Dr. Meyer, I was intrigued by your recitation, particularly your remarks regarding the need to target Federal assistance to the certain groups.

Coming from a philosophy that views the Federal Government's role as technically to assist the less fortunate, we have seen over the last several decades an increasing trend toward the middle class and even upper class subsidization.

Apparently, what you are saying is that if we are to get a handle on budget problems that currently face us, particularly in outyear deficits, we are going to have to make some very hard choices in terms of subsidization of the higher income segment of our society.

I agree very much with your assessment that our current percentage of Government funds that go to certain groups, civil service, military, veterans, and others, cuts across party lines. But you give us the cold hard facts as to what this is doing to the low income.

I am wondering, Mrs. Frances, if you share Dr. Meyer's assessment in terms of Federal involvement in education funds.

Are we directing too much to upper and middle income classes?

The Reconciliation Act of 1981, and other initiatives, have attempted to direct education funds, and qualifications for loans, on an income basis.

Do you agree with that? Do you think this is the direction we should be going, or do you have a different solution?

Ms. FRANCES. I think there is a larger social issue that we have to address first, and that is the role that we expect education to play in achieving other national goals: in revitalizing the economy, in meeting competition in the world economy, and in improving the quality of our lives.

There is a fundamental distinction which needs to be made that is not made in many budget discussions, namely, spending for education represents an investment rather than a transfer payment.

Mr. COATS. That argument is made for every program we spend money on here in Washington; it is an investment in the future. Directing money to young mothers, the WIC program: All are investments.

We have difficult choices that we have to make. Unfortunately, we just do not have the funds available to invest in every area of society.

Ms. FRANCES. That is true, but I think we probably should pay more attention to the rates of return on the investments that we do make between physical capital and human capital.

Mr. COATS. Are you suggesting we make a subjective determination between the health of a new-born infant and the rate of return we get if we pump money into that program versus the rate of return we will get if we provide tuition for someone in the middle class?

Ms. FRANCES. No. I think we need to look at the fact that our national investment policy stimulates and rewards investment in physical capital, but we don't have an equivalent set of tax incentives for investment in people. If you look at rates of return on investment in physical capital, as compared with return on investment in people, you could make a very hard nosed investment calculation and come out with a greater investment in people.

Mr. MEYER. I think the move initiated by the Reagan administration, and adhered to by the Congress in 1981, on education, is an excellent example of the point I am trying to make. We had a situation where people without any limit on income could get subsidized loans for higher education at interest rates of, say, 7 percent, when market rates were as high as double that rate.

I am all in favor of fostering higher education and there ought to be ways to help people invest in it. There is no reason, however, why one middle-class person, or upper income person should be subsidized by another. Such people should be able to borrow at the market rate of interest and tightening up the limit on subsidized loans to a $30,000 income cutoff was not exactly Draconian; saying that over $30,000 there would be a needs assessment is an excellent example of what I am talking about, of the kinds of things we have to do.

If we are not willing to take those kinds of steps or similar steps for other beneficiaries of Federal programs, then my fear is that these nonmeans tested programs will gobble up the lower income programs. There is ample evidence of that from the fact that the yearly increases alone in programs like social security are bigger than some of these low-income programs. If we don't get those increases under control, there won't be anything left for low-income people. I'm not suggesting absolute cuts, but slower gains. The implications of being afraid to take on the elderly, the veterans, the students, the farmers, and so on, saying that all of you have to give a little, is that others in great need suffer.

As far, as physical investment is concerned, we have done a pretty poor job in stimulating investment in physical capital also, and that is a great problem, too.

Mr. COATS. I thank you for your comments. You summarized my concern very, very well. It is important to recognize that continued pressure, constituency pressure, to subsidize middle or upper income classes has denied a fair share to lower income people.

Mrs. SCHROEDER. Congressman Levin.

Mr. LEVIN. We have another panel, and, as I sit here, I wish to mention the last couple of years I was not in Congress, but the thrust of the 1981-82 cuts, proposals was not to protect low-income groups and to try to cut away advantages of high- and middle-income groups.

I don't recognize history when it is written that way, and I think Dr. Meyer's testimony had a lot of thrust, because it showed the opposite; that the thrust of the proposals of the administration in 1981 and 1982 was at lower income benefits.

When it comes to, Dr. Meyer, the student loan program, the proposal of the administration was to go far deeper in the student loan program than eventually emanated from these Halls, and I was not a Member here.

The proposal that came out was after work by Congress to protect student loans for those below $30,000 where there were many children, and it went far deeper into the student loan program, and that your testimony, Mrs. Frances, illustrates why there was resistance to cuts in student loan programs for families earning less than $30,000.

I wish to point to two pieces of testimony that indicate how important it is that we not become glib about protecting those families at poverty levels, which we have not concentrated on, and that we can do so rather readily by cutting other benefits. It is not so easy.

In Dr. Davis' testimony, it is pointed out that families pay 73 percent of the cost of dental care and families pay 4 percent of the cost of eyeglasses out-of-pocket.

Dr. Meyer, you talked about the tax subsidy and health care, and you point especially to the failure to tax the premium payments under health insurance, but you find the areas of greatest growth of health insurance coverage in the last several years have been for middle-income families for dental care and vision care.

Proposals to tax insurance contributions, especially in these joint employer-employee funds, very much affects dental care and eyeglasses, vision care which, until 15, 20 years ago, were the problems of upper income groups of this country.

What has happened in the health insurance area is benefits have been cut, but the ones that have been cut have been mental health care, dental care, and vision care for middle-income America.

I agree completely that those below the poverty line were not receiving them at all, but the notion that there is kind of an easy solution, and that the tax subsidies of this kind have mainly benefited those who really don't need them, I think misses part of your point.

I thought your testimony, Dr. Meyer, was splendid, and I think you surprised a number of people with your attack on the impact of the last couple of years in terms of people who live in poverty, but I urge that we not think that in areas like health insurance premiums, that there is really a very simple answer to the problem, because there is deep resistance in these Halls to proposals to tax insurance premium payments, in part because these payments, they have expanded the base of medical care to families who 10, 15 years ago did not begin to have decent kind of care for their children, dental care or eyeglasses for their children.

Mr. **Meyer**. I certainly did not mean to imply that there were any easy solutions, and, in fact, I do not believe that a ceiling on the tax subsidy cap is a panacea or without problems.

I do find it preferable to another blanket of regulations in the sense that I think it would stimulate more choice of health plans by American workers.

An estimated 82 percent of American workers have no choice of health plan. That would begin to change with a limit on the tax subsidy.

I am talking about taxing at the margin, and the kind of proposals that are under consideration by Congress now would affect about a third of workers; the other two-thirds would not reach the ceiling and would still have all their health benefits tax-free.

I am suggesting a fairly high cap, so that a worker who has basic coverage for hospitalization, X-rays, lab tests, physician visits, maybe some dental care, (I won't specify precisely what is in the package), would not pay a tax, but at some point, if you want a little extra coverage, you would have to pay a little extra.

That is not unfair. In some cases that would be cleanings at the dental office, or a pair of eyeglasses.

I am not suggesting that people should not be covered for those items. I am suggesting that the auto worker, whose company pays some $300 a month for health insurance per worker, which may be perhaps double what the average company pays, and all outlays are covered for that worker, that is fine. But let's not do that with my tax dollars or your tax dollars.

Let that person, if he wants to be covered for each and every health service ante up a little bit. How can we not touch that subsidy at the margin when we still have 1-in-10 Americans without coverage?

Congress has considered health insurance for the unemployed, but some say there is no money for it. If you take all the other subsidies that are given to business, workers, and the elderly all the tax expenditures we have, and national defense outlays as a given or untouchable, then yes, there is no money for health insurance for the unemployed.

Marginal sacrifices by some could help these folks who have nothing. I am not suggesting there is no give-up to it. I am not trying to sell snake oil in that sense, but I think that it would be a more equitable approach and would not cause widespread hardship.

Ms. DAVIS. If I could comment on that, I think you are right, Congressman, that in 1981 we did enact very substantial tax breaks which were weighted heavily in favor of higher-income people. The tax cap would regain revenues by putting the major burden on the middle-income workers.

Mr. LEVIN. There are some exceptions, but that is exactly my judgment. I find it strange that those who talk about inequities don't concentrate on what is the greatest subsidization, and that is uncontrolled medical payments with your dollar and my dollar.

You don't emphasize that.

This isn't the health subcommittee, I realize, but your testimony was stimulating, and I hope we can dialog further some other time.

Ms. DAVIS. I think your point is exactly right; we are not dealing with the basic root problem, which is inflation in the health care sector. There is no evidence that this tax proposal would change inflation in the hospital sector.

I take issue with Dr. Meyer's assertion that a tax cap would be equitable. It would fall heavily upon the Northeast and North Central regions in this country. It would also fall very heavily on those firms that have chosen to provide health insurance coverage for retired workers.

The auto companies pay a lot for health benefits for retired workers and much of the cost of coverage goes for dependents or other nonemployees.

Further, the tax cap would fall most heavily on firms with older workers who utilize the health care system more extensively.

The tax cap would be a very inequitable tax borne by workers in certain regions of the countries and in certain types of firms.

Mrs. SCHROEDER. Dr. Frances, I wanted to ask you a question.

Have you looked at all at what is happening to women in higher education? Has anyone looked at this research?

Ms. FRANCES. The statistics show that the increase in enrollment in the last decade is accounted for overwhelmingly by women, older women, as well as younger women.

Recently, however, we have just begun to see the first downturn since the early seventies in enrollment of women and now we have to ask what has happened. What is different in the last several years as compared to earlier years? Have those who delayed their education to a later time now worked through the pipeline; or is the downturn the result of economic adversity; or the difficulties facing the older part-time students who are not generally eligible for student aid who may now find it harder to pay for college? We do not know why we have had a reversal of the trend in the enrollment of women. We do not know if it is a temporary phenomenon, or the beginning of a long-term shift. This trend is very important to watch.

Mrs. **Schroeder**. I have another question for you on equity and means testing, because this bothers me a lot about the higher education area. I have heard many universities say they have their own private aid to students. They say one of the big problems that they confront is that they will have some very promising students from two different types of families—one that saved for the education, but the other that had no money.

The question becomes one of judgment. Do you give the aid to the one or the other?

How do you blame the lifestyle decision of the family on the child by allowing them to forego their future education?

Ms. **Frances**. You struck on a fundamental difficulty with the allocation of need-based student aid, which is determined by current family circumstance—when actually it ought to be determined by the long-term economic situation of the student. A student from a low-income family, who is preparing to be a doctor, is likley to have greater resources available over an earning span, then the student from a middle income family who is preparing to be a college professor. Yet, the students are awarded grants on the basis of their respective current family income, rather than on their own lifetime income.

There are some fundamental equity questions in the allocations to be made, that are inherent in the system. Over the last several decades we have gone through an intergenerational shift in the financing of higher education which has broad equity implications. In the previous generations, the family generally paid for the student out of past savings and current earnings. But what we are doing now is shifting more of the payment to the students, and if the students can not pay the full cost in the current period, the students are required to borrow and repay the loan out of their future income. In a sense, the current generation of parents, who paid for only a small share of their own education, are not now providing equivalent support for the college education of their children, but are requiring their children to borrow to pay for college—in effect, shifting the burden of inflation to the current generation of students. When this generation of parents gets to the point where they need old age assistance, those students with the loans are going to tell them to go out and borrow for their old age assistance.

Mrs. **Schroeder**. You make an excellent point. It is something we all have to ponder as we look at it in a tight framework rather than thinking of the whole implication of what is going on.

Dr. Meyer, I was impressed at your comments about having some ideas how to hold health care down. We really don't have time to go into those, but we would be very happy to have you submit any thoughts, and the same with you, Dr. Davis. I think that is a very important subject we in the Congress have to deal with.

You summed it up when you said everybody wants it but no one wants to pay for it. There has not been any data produced showing when you cut middle class programs that there is then more money for the poor.

Mr. **Meyer**. No, you are absolutely right. We have tended not to make those kinds of linkages and tradeoffs. I don't think that means that it could not be done that way.

I think that treating savings from program reform measures as something that should be returned to the taxpayers as a tax cut would be a mistake at this point when so many are in need of some help.

I advocate a tax subsidy ceiling in this area as a part of a package of ceilings. Sure, this one would hit the working person a little bit harder perhaps, but if we packaged it up with other subsidy limits, it would be viewed as more fair.

The major proposal for this subsidy ceiling by Congressman Gephardt would adjust the cap by region to attempt to take care of the regional disparities that Dr. Davis referred to. That would be very complex, and it is a case where simplicity and equity collide, but if we wanted to do that, we could.

There are problems of equity, even with an equity proposal.

Mrs. **Schroeder**. We have not used them in the past that way. Then you get into the problem of building the really innate resistance and the retaliatory feelings that they are paying for it, but they don't qualify for it.

Should tax dollars go to a program that you literally cut off?

You can go all the way down to Head Start.

I want to thank all of you for your being here. Again, if there are any comments you wish to submit, please do so.

Thank you very much.

The last panel is our housing panel.

The first panelist is Joseph Scully, president, St. Paul Federal Savings & Loan. We also welcome Cushing Dolbeare, president of the National Low Income Housing Coalition, and Dr. George Sternlieb, director for the Center for Urban Policy Research, Rutgers University.

Joseph Scully?

Thank you for being here. We will put all of your testimony in the record.

STATEMENT OF JOSEPH SCULLY, PRESIDENT, ST. PAUL FEDERAL SAVINGS & LOAN, CHICAGO, ILL., ON BEHALF OF UNITED STATES LEAGUE OF SAVINGS INSTITUTIONS

Mr. **Scully**. My name is Joseph Scully, president of St. Paul Federal Savings & Loan, Chicago, Ill.

I appear today on behalf of the Home Ownership Task Force of the United States League of Savings Institutions, the main trade organization of the thrift industry.

The concerns which led the Congress to create your select committee are almost identical with the concerns which led the savings and loan industry to set up our home ownership task force. We—as you—are concerned that somehow home ownership has been losing its status as a national priority.

We—as you—believe that home ownership is one of the key elements which differentiate America from many less fortunate nations. The social stability of the United States in no small part stems from the fact that in this country people are able to realize what we call the American dream—ownership of their own land and home. I point out to you the chart to my right. Many times it is said that home ownership garners too large a share of the housing market. In the past 30 years, in fact, the home ownership housing share of the total private investment market has declined, relative to the share going to business.

The savings and loan business has played a key role in helping American families finance home ownership. Most home mortgages are obtained from the 4,000 S&L's and similar hometown institutions. We intend to continue to serve this public purpose but are deeply concerned over three problems which we hope your committee will examine over the coming months.

First, the percentage of home ownership is declining. The decline is slight, but it is there. Since the 1940's, the percentage of homes owned or being purchased by their occupants has been growing. But so far in this decade it has declined almost one full percentage point—to 64.8 percent.

Second, we have an affordability gap. That is, the cost of available housing and the price a would-be homeowner can realistically pay are about $14,000 apart.

Third, there are more borrowers than savers because of changes in our population makeup. To put it another way, the number of Americans in the 25- to 44-year age bracket is increasing. That is the age when most Americans borrow most heavily—for housing, children's education, et cetera. At the same time, the number of Americans in the 44- to 65-year age bracket is declining. That is the period when most people save most heavily. What this means for housing is obvious; the pool of savings needed is going to decline at a time when we badly need more money—not less—to meet rising housing demand.

The second chart shows the savings rate, what it has been over the past 17 years and what we project is going to happen in the future.

There is another factor not on the chart, but in the pamphlet that we passed out, and that is the ratio of savers to borrowers, which is really where people get the money to buy homes.

In 1971, if you take the prime savers, 45 to 65 and prime borrowers, 25 to 44, that ratio is 1.31.

In 1982, it is down to 1.1. In 1985, it is going to be .89, so we are seeing a steady decrease in the prime savers and a steady increase in the prime borrowers.

These three problems are touched on in more detail in the first paper issued by our task force—a paper which I have submitted to the committee, and which I ask be included as part of this hearing record.

The report is a warning that times have changed—and that we must work to make certain that housing is reestablished as an important national priority.

On the surface, housing is rebounding nicely from its depression-level activity of 1981 and 1982. Housing starts in May were 19 percent above April; and new home sales rose 4.38 percent in May. But—and it is a fingernail biter—conventional home mortgage interest rates rose in early June. Let me submit also for the record the city-by-city breakdown of conventional mortgage rates issued by the Federal Home Loan Bank Board on July 7.

But those are short-term sorts of figures. We hope your committee will focus more on the long-term trends. And they are sobering.

Our task force particularly calls your attention to the housing capital shortage resulting from Federal budget deficits. When Federal deficits are high, it is the Federal Government which is first in line at the credit window, driving up interest rates for the next person in line.

Unfortunately, it is always the prospective home purchaser who is the last in that line, and he or she is stuck with the brunt of the high-interest-rate impact. I am sure you are well familiar with this "crowding out" phenomenon, and we all should be concerned with its impact. If funds are siphoned away from housing, there are ominous implications for the children, youth and families with which your committee is particularly concerned.

I understand that today you want to concentrate on the trends rather than possible solutions, so I have not touched on our group's interest in tax incentives, particularly aimed at first-time home buyers, and our belief that adjustable mortgage loans are necessary to help solve the housing problem.

I would be happy to answer any questions you may have.

Thank you.

[Prepared statement of Joseph Scully and brochure follow:]

PREPARED STATEMENT OF JOSEPH C. SCULLY, PRESIDENT OF ST. PAUL FEDERAL SAVINGS AND LOAN ASSOCIATION OF CHICAGO

My name is Joseph C. Scully, and I am President of St. Paul Federal Savings and Loan Association of Chicago. I appear today on behalf of the Home Ownership Task Force of the United States League of Savings Insitutions,[1] the main trade organization of the thrift industry.

The concerns which led the Congress to create your Select Committee are almost identical with the concerns which led the savings and loan industry to set up our Home Ownership Task Force. We—as you—are concerned that somehow home ownership has been losing its status as a national priority. We—as you—believe that home ownership is one of the key elements which differentiate America from many less happy nations. The social stability of the United States in no small part stems from the fact that in this country people are able to realize what we call "The American Dream"—ownership of their own land and home.

The savings and loan business has played a key role in helping American families finance home ownership. Most home mortgages are obtained from the 4,000 S&Ls and similar hometown institutions. We intend to continue to serve this public purpose but are deeply concerned over three problems which we hope your Committee will examine over the coming months.

First, the percentage of home ownership is declining.—The decline is slight, but it is there. Since the 1940's the percentage of homes owned or being purchased by their occupants has been growing. But so far in this decade it has declined almost one full percentage point—to 64.8 percent.

Second, we have an affordability gap.—That is, the cost of available housing and the price a would-be home-owner can realistically pay are about $14,000 apart.

Third, there are more borrowers than savers because of changes in our our population makeup. To put it another way, the number of Americans in the 25- to 44-year age bracket is increasing. That is the age when most Americans borrow most heavily—for housing, children's education, etc. At the same time the number of Americans in the 44- to 65-year age bracket is declining. That is the period when most people save most heavily. What this means for housing it obvious; the pool of savings needed is going to decline at a time when we badly need more money—not less—to meet rising housing demand.

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[1] The U.S. League of Savings Institutions, formerly the U.S. League of Savings Associations, has a membership of 5,500 companies representing over 99 percent of the assets of the $730 billion savings and loan business. League membership includes all types of associations—Federal and state-chartered, stock and mutual. Many prominent savings banks belong as associate members. The principal officers are: Leonard Shane, Chairman, Huntington Beach, California; Paul Prior, Vice-Chairman, New Castle, Indiana; William O'Connell, President, Chicago, Illinois; Stuart Davis, Legislative Chairman, Beverly Hills, California; Roy Green, Executive Vice President, Washington, D.C.; Phil Gasteyer, Legislative Counsel; James Freeman, Senior Legislative Representative. League headquarters are at 111 East Wacker Drive, Chicago, Illinois 60601. The Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006. Telephone: (202) 637-8900.

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U.S. League of Savings Institutions
Homeownership Task Force
Donald F. Wall/Chairman

DISCUSSION PAPER 1

The Challenge to Homeownership in the 1980s

About this paper...

The United States League of Savings Institutions Homeownership Task Force was created in November 1982 to develop and advocate programs to assure that homeownership again becomes accessible to most Americans.

In announcing the task force, U.S. League Chairman Leonard Shane, of Huntington Beach, Calif., said the group would propose vehicles to permit and facilitate reestablishment of homeownership as a "top national priority."

Members (listed at the end of this paper) were appointed from savings institutions across the nation, and the League brought in as senior consultant Jay Janis, former undersecretary of the Department of Housing and Urban Development and past chairman of the Federal Home Loan Bank Board.

This task force discussion paper, "The Challenge to Homeownership in the 1980s," is the first in a series to be issued through the summer months and into the fall of 1983.

Additional copies are available at $5 plus postage and can be obtained by writing to the Order Processing Department, U.S. League of Savings Institutions, 111 E. Wacker Drive, Chicago, Ill. 60601.

July 6, 1983

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This first in a series of reports of the Homeownership Task Force of the United States League of Savings Institutions was prepared amid a growing belief in this country that housing has finally turned the corner—and that rising production and sales signal the start of the long-awaited cyclical upswing.

This perception of a housing recovery is conveyed in many news stories and by reports from the government and from real estate brokerage offices, where resales in the first five months of 1983 were the best since 1979.

Interest rates have plummeted by nearly four percentage points in eight months, home builders are applying for construction permits at record-setting levels, lenders are flush with cash, and the Federal Housing Administration and the Veterans Administration can barely keep up with the rising pace of government-backed mortgage demand.

While a few reports convey an uneasiness with the true magnitude and potential longevity of the recovery, the conventional wisdom holds that housing is on its way back to many years of prosperity and that many Americans can look forward to their own homes soon. After all, such strong economic signs couldn't be wrong.

Yet in many important respects, our task force concluded that the signs *are* wrong.

We found that the economic realities for home buyers are nowhere near as bright as the conventional wisdom suggests—and that the much-ballyhooed "recovery" is far more fragile than the prevailing popular perception.

Moreover, that popular perception tends to make us complacent, not only about the current prospects but also about this nation's ability to meet its homeownership commitment for the balance of this decade and beyond.

All of us want very much to believe that what happened in the last three years was merely a temporary setback in our quest for affordable housing for our citizens. But the very factors that caused the severe real estate and housing recessions of the last few years persist, and profound changes in the home finance delivery system have substantially altered the opportunity for homeownership. Accompanying this change in homeownership opportunity is the threat of a much greater change in lifestyle than the social or political systems would accept.

These changes include the deregulation of savings institutions and savings rates, prompted by the popularity and rapid growth of unregulated financial entities. Specifically, deregulation has contributed to the shortening of deposit account maturities at financial institutions, which inhibits long-term lending and introduces into the system a built-in mismatch of assets (loans) and liabilities (deposits).

In the past, some regulations have provided a measure of assurance of homeownership opportunity as a national priority, but this old system is no longer at work.

While deregulation assures that savers will be paid market interest rates, housing must operate in a less favorable environment than in the past. This is so because home buyers must compete in the open market for capital with bidders able to preempt the market at any part of the interest rate cycles, which now feature unprecedented volatility and a premium on short-term credit.

Housing credit is different from other types of credit and, therefore, in the eyes of many observers, isn't suited to competing in "auctions" for credit. Home buyers, for example, must repay their loans from a stream of income which is not usually affected by the borrower's use of the assets. The cost of business borrowings, on the other hand, can be passed through and recovered quickly by means of price adjustments for the goods and service produced from the assets purchased with the borrowed funds.

These changes represent deep structural cracks in our housing delivery system, which will not repair themselves and which are beyond the capacity of a free market to fix.

In fact, the thrust of this report is that not only are the structural problems which caused the debacle in home finance in 1979-1982 still with us, but, more importantly, other new trends are emerging which potentially pose a far more serious threat to our national housing policy goals over the next several years.

We believe that the nation must recognize these negative trends as challenges to homeownership opportunities and take steps to offset them with carefully devised programs.

Indeed, our task force concluded that the longer term outlook for homeownership—spanning the years 1984 through 1990—is a sobering one, even under optimistic scenarios regarding interest rates, unemployment and inflation.

Look beyond the surface impressions of the housing rebound—as this task force has done through intensive analyses undertaken since December 1982—and you begin to find facts that demand greater public awareness.

You find, for example, that:

- The ratio of homeownership in the United States has declined by nearly a full percentage point in the 1980s thus far and could well remain depressed for years. This decline ends the steady, unbroken growth in homeownership ratios extending from the 1940s—a pattern that four major recessions didn't interrupt. *The drop in the national ratio of homeownership since 1980 has been so dramatic, in fact, that it has wiped out more than half of the gain registered during the 10 prior years—a decade known for its high housing production and sales levels.*
- Contrary to present appearances, housing affordability remains a severe problem for a large percentage of would-be buyers, and will continue to be so, even under the most sanguine interest rate scenarios. *By 1984, even if median home prices remain constant at their 1982 levels—a highly unlikely event—and mortgage rates drop to 11%, the gap between what the typical first-time buyer can afford to pay and the price of the median-cost new home will still be $14,000.*

Compare that with earlier periods when homeownership was expanding rapidly, such as the mid-1970s, and you begin to understand why fewer first-time purchasers will be able to make the jump from renting to ownership than popularly perceived. The affordability gap in 1977 was just $2,400. First-time buyers next year will face a gap five times as large—if they're lucky.

If the outlook for buyers and especially first-time buyers is so grim generally, it is dreadful for the specific segments of the population who in the past have had little homeownership opportunity. Purchasers from traditionally disadvantaged sectors of the market, particularly the poor and the disabled, modest-income elderly and minorities, may run out of opportunity entirely.

- A heretofore little-noticed demographic mismatch will limit saving accumulation in the United States during the coming several years—putting a severe strain on the availability of capital for home mortgage finance. The mismatch involves the rapid expansion in the population of consumers in the prime borrowing age bracket (25-44)—these creating demand for credit—relative to the number of individuals in the prime saving age bracket (45 and over)—those providing the supply of funds. During the next several years, the U.S. economy will see the smallest percentage of Americans in the prime saving bracket during any period in the second half of the 20th century. *That demographic mix inevitably will jeopardize the rate of savings in the economy overall and inevitably will reduce the supply of lendable funds for home buyers. Rising demands for progressively scarcer funds will then exert significant upward pressure on mortgage interest rates as well as other forms of long-term major credit.*
- *The prospect for a severe shortfall of capital in this country for the coming years casts an ominous shadow over homeownership opportunities through the remainder of the 1980s.* Using mildly optimistic assumptions about inflation, interest rates, growth in GNP, housing starts and sales, and decline in unemployment during the balance of this decade, the task force's economic analysis projects a net capital shortfall on the order of $100 billion to $240 billion per year for the economy as a whole during the next five years. The shortfall of capital will be closed through either a reduction of demand for credit or an increase in credit supply or both. This closing of the gap can occur by means of higher interest rates, slower GNP growth, and fewer housing starts and sales than generally anticipated. Whichever of these occurs, the impact on homeownership opportunities will be negative.

The capital shortage will result largely because of the inability of Congress and the administration to exert self-discipline and control over the size of federal budget deficits. Deficits even half the magnitude of the $200 billion-plus levels now projected will prevent tens of thousands of American households from purchasing a home. Rather than functioning as a promoter of homeownership—its traditional role—the federal government will become a massive impediment: it will siphon away the capital many of its citizens would otherwise borrow to buy homes. Rather than consuming nearly one out of every two dollars available in the capital markets—as at present—the federal government will need to cut its share to one out of every five dollars to prevent harm in the next three years to residential borrowers.

In human terms, the price of the current lack of fiscal discipline in Washington will be steep. In social and political terms, the price could be even steeper.

- Despite the often-expressed hopes of those who look to pension funds and insurance companies to take up the slack in the mortgage market, close analysis shows that these institutions could supply no more than 10% to 20% of mortgage finance requirements this year and even less in 1984. Moreover, the capital markets altogether can only supplement the core suppliers of housing credit. While it would be foolish to ignore the potential of these sources of funds for the homeownership market, it would be equally foolish to presume that what is not supplied by the traditional lending institutions is going to be drawn from this very limited well.
- Home building is both more seasonal and more cyclical than most other industries. These characteristics make the construction process less efficient and therefore more costly. While the seasons are beyond human control, housing's cyclicality is largely due to factors which we can affect, such as production of building supplies and raw materials and the interest sensitivity of mortgage demand. Government's heavy—at times almost exclusive—reliance on monetary policy to control inflation and the nation's orientation toward the fixed rate mortgage have contributed significantly to this cyclical phenomenon. When rates are perceived as being "high," home buyers stay out of the market. Production declines both at the home building level and at the builder supply level. When rates drop to "low" levels, buyers rush into the market putting pressure on an industry whose capacity is down. *Cyclicality in the home building industry can be reduced through widespread use of adjustable mortgage instruments which do not force home buyers to gamble on low points in the interest rate cycle but rather allow them to enter the market at almost any time.*
- The shortening of maturities on popular savings instruments, not only at depository institutions but in virtually all financial entities, has resulted in a shrinking of the supply of long-term lendable funds. Fixed rate mortgage loans made with overnight money are generally being sold through the secondary mortgage market. But only 2% to 3% of the total have been purchased by institutional investors in the capital markets. This "maturity warp" over time may prove to be only a minimal or transitory obstacle to homeownership opportunities, but for now, financial institutions must learn the true nature of these accounts before prudence will permit commitment to long-term loans—even long-term loans with some rate adjustment features.

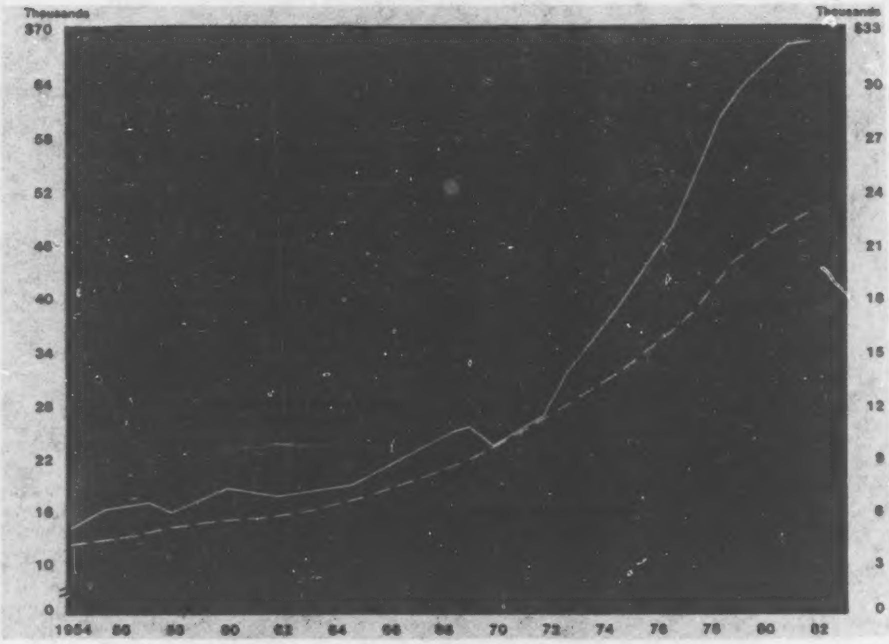
Not all the task force findings are discouraging. We assert, for example, that, contrary to some conventional wisdom on the subject, savings institutions are going to remain primarily home finance experts, doing a major portion of the home mortgage business in the United States, despite the addition of new, nonmortgage types of authorities in federal laws passed in 1980 and 1982. Financial institutions with specialized knowledge and experience can better serve people's special needs.

The statistical facts that underpin these and related findings of the task force are worth examining at greater length. This report will take a look at several of the areas of economic analysis, and then discuss the public policy implications of the emerging challenges to homeownership in the United States during the balance of the 1980s. The task force's entire set of findings will be released in a series of discussion papers during the summer and fall of 1983.

AFFORDABILITY: THE PRESENT—AND FUTURE—GAPS

The pervasive glow that surrounds most discussions of the home real estate "rebound" this year masks the hard realities facing the bulk of prospective home buyers: interest rates may be down and housing prices may have flattened temporari-

CHART 1
HOME PRICES VS. INCOME



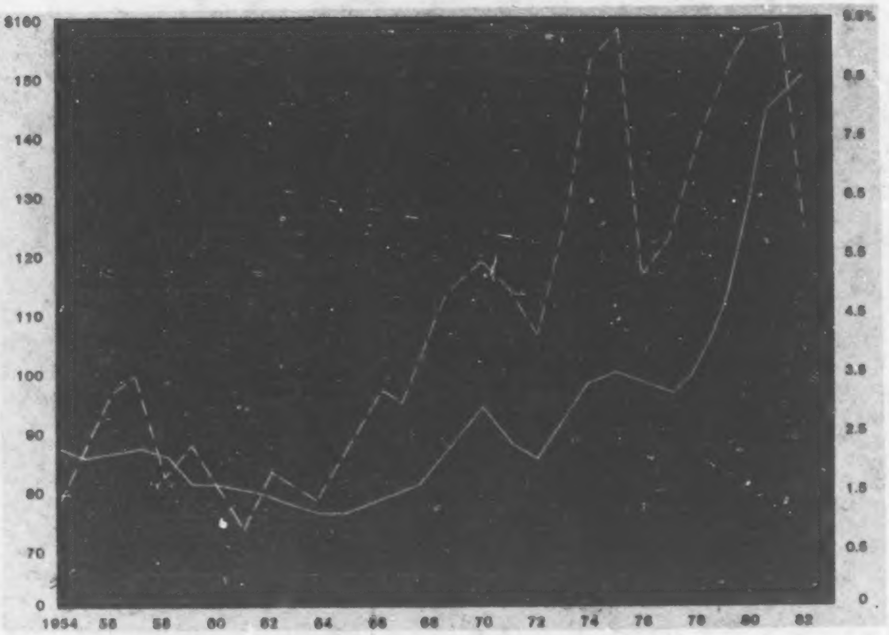
Sources: U.S. Department of Commerce and U.S. League of Savings Institutions

ly, but the fact remains that purchasing a home is still a financial impossibility for millions of consumers *who would have been qualified in prior years.*

The housing affordability conditions that faced buyers in past decades are depicted in Charts 1, 2 and 3. They track home prices, family income and mortgage terms back to 1954.

Chart 1 illustrates the relationship over the last 30 years between median family income and median new home prices. For nearly two decades, the growth in family incomes kept pace with—and for four years equalled or exceeded—the growth in new home prices. Beginning in 1973, however, the median price of new houses began to accelerate sharply relative to family incomes culminating in the massive price gap buyers experienced by the end of 1982.

CHART 2
FINANCING COSTS



Sources: U.S. Department of Labor, Bureau of Labor Statistics, and Federal Home Loan Bank Board

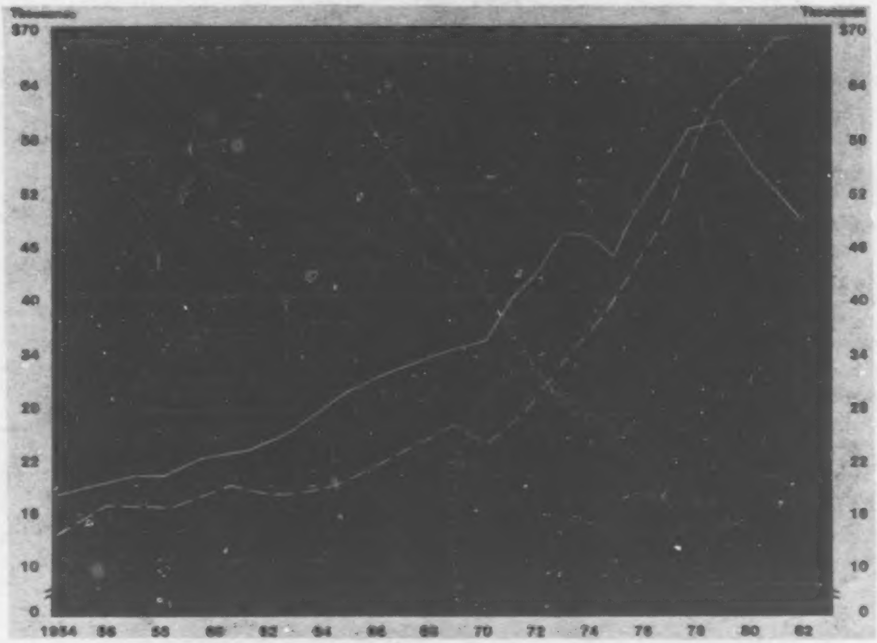
Chart 2 depicts the cost of housing finance relative to the level of inflation prevailing in the economy overall. (The inflation rate is measured by the GNP deflator, while mortgage finance costs are measured by the annual home loan payment per $1,000 financed.)

Although historically mortgage finance costs tend to move in the same direction as inflation, the chart shows the dramatic departure from that pattern that began in late 1981—and continues to this day. The price of financing, plus accelerating prices of houses, delivered a devastating "double-whammy" to consumers seeking to purchase a home.

Chart 3 creates a measure of the affordability gap. It shows the price that median-income home buyers under 35—the prime first-time purchaser group—could afford to pay during 1954-1982 if they devoted 25% of gross income to a mortgage payment. Plotted side by side are the median prices of homes actually sold during the same year.

As the data demonstrate, throughout most of this 30-year period American consumers have enjoyed a "positive margin of affordability" between what their incomes permitted them to buy and what was available on the marketplace.

CHART 3
THE AFFORDABILITY GAP



Sources: U.S. Department of Commerce and U.S. League of Savings Institutions

In 1979, however, that margin disappeared. Rather than a fleeting, momentary distortion caused by the pincer effects of high inflation and high housing prices, the gap now shows signs of becoming a long-term presence in the housing equation.

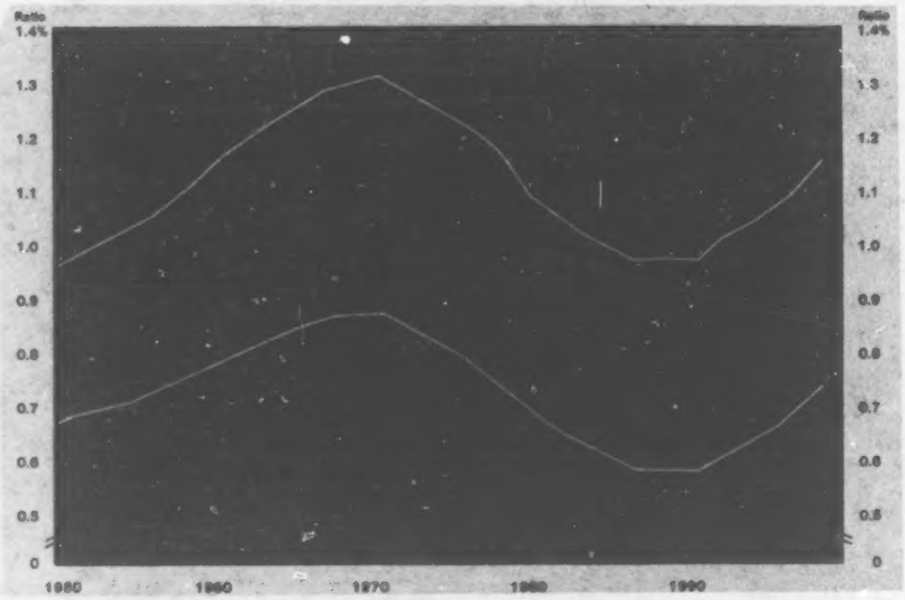
Despite the fact that by late 1982 the rate of inflation was sharply on the decline, the affordability gap for house buyers has barely narrowed in 1983. The factors that prop the cost of homeownership up despite moderating inflation are rooted in the systems of housing construction and home financing. One of the most difficult is cyclicality—the tendency of housing producers and construction materials suppliers to "aim for the low points" of housing production cycles and thus create chronic mismatches of supply and demand, leading to higher prices for homes.

Moreover, mortgage interest rates registered a relatively small decline, compared with inflation. During 1982, home loan rates averaged 14.75%, a postwar high. During 1983, by comparison, they will likely average 12.5% to 13%.

In terms of hard savings to the consumer, the drop to 12.5% will mean a cost decline from $150 per $1,000 in mortgage debt to $129 per $1,000.*

*Assuming a 28-year average term.

CHART 4
RATIO OF PRIME SAVERS TO PRIME BORROWERS



Sources: U.S. Department of Commerce and U.S. League of Savings Institutions

Although highly welcome, that reduction doesn't really make a sizeable dent in the affordability problem. To return to financial cost levels of 1978, just prior to the onset of the affordability gap, the economy would have to offer 10% fixed rate loans—a drop that few, if any, economic analysts consider feasible.

Alternatively, family income for buyers below the age of 35 would have to jump 22%, while mortgage rates remained at 12.5%—again not likely in the coming year (or even in the coming several).

The only other scenario that would close the gap would be a drop in median new home prices from $69,300 for 1982 to $62,000 (a 10% decline), while mortgage rates remained frozen and median family income rose 6%.

Obviously, the gap not only persists, but is substantial. As mentioned earlier, it is likely to be a $14,000 chasm confronting the median first-time buyer in 1984, even under optimum assumptions regarding federal deficits, inflation and interest rates.

THE DEMOGRAPHIC DILEMMA: LOWER SAVINGS, LESS MORTGAGE MONEY, HIGHER HOUSING DEMAND

Everyone who pays attention to housing is familiar with one of the most widely publicized demographic "events" of the decade: The arrival of the largest mass of the "baby boom" generation into the prime home buying age category. Some 42 million Americans, more than one out of every six people in the country, will reach the age of 30 during the 1980s. The decade of the 1970s, by comparison, saw *10 million fewer* people enter that age bracket.

The implications of the baby boom surge for housing have been chronicled at length. More people entering the prime home buying period in their lives will mean more home building, more home sales, more home furnishing and more home mortgages. The demographic outlook at first glance is upbeat.

But there is another side to this phenomenon that hasn't received the attention it deserves. It is what can be called the demographics of saving behavior, or the life cycle of saving.

As shown in Table 1, different age groups in the American population exhibit significantly different behavior patterns when it comes to saving money. Based on extensive field surveys of depositors conducted at savings institutions across the country during 1982, it is possible to quantify the life cycle of saving.

The people who save the least—and in fact are often net borrowers rather than savers at all—are households in the 25- to 44-year-old grouping. Although a family's income may rise sharply during these years, so do expenses—and those purchases typically rely heavily on credit.

TABLE 1
THE LIFE CYCLE OF SAVING

Age Group	Median Household Income	Median Expected Household Saving	Implied Saving Rate
18-24	$18,544	$ 840	4.5%
25-34	28,476	1,267	4.4
35-44	35,730	1,687	4.7
45-54	36,620	2,310	6.3
55-64	31,188	2,949	9.5
65 and over	22,081	2,490	11.3

Source: U.S. League of Savings Institutions, Economics Department

The cycle begins to shift perceptibly once we move into the 45- to 54-year-old category. By then, some (if not all) of the children are completing their educations, moving out on their own. Typically, personal incomes are reaching career highs, while expenses such as home mortgage, automobile and other major debts are coming under control. People begin to save money and build the financial base for their retirement.

The next phase—ages 55-64—represents the highest saving years in terms of net dollars. Household income may begin to decline, but standard household expenses tend to decline even faster.

Retirement years—generally 65 and over—tend to produce the highest percentage of saving rates of our lives, though not necessarily the highest dollar totals. Incomes by now are markedly on the decline, but expenses continue to be low relative to other points in the cycle.

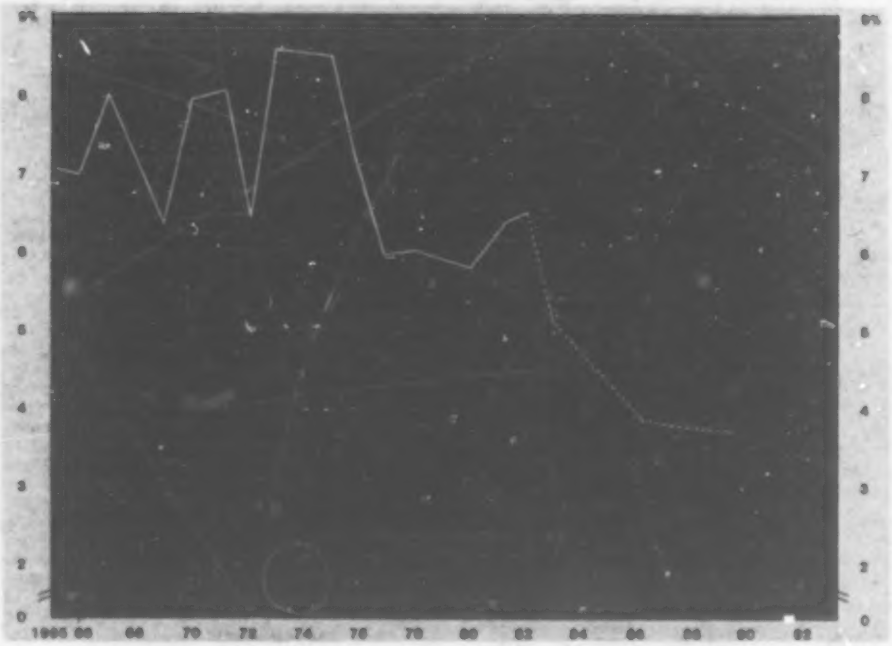
The relevance of the personal saving cycle to housing prospects is compelling and direct.

As Chart 4 reveals, the next several years will witness the least favorable demographic mix of savers and spenders in the overall population in decades. *Proportionally there will be far more consumers with high credit needs in the marketplace, and far fewer high savers to provide capital for those needs, than at any time in recent history.* Adding to the problem of an unfavorable demographic mix of savers and borrowers is the decline of contingent reasons to save in today's society. More people have pensions or rely on Social Security. Readily available lines of consumer credit, easily accessed with plastic cards, reduce dependency on savings as a source of emergency cash. But the major cause of savings shortage can be traced to the saver/spender imbalance.

To get perspective on this, consider the years of the late 1960s and early 1970s. The Census Bureau says that in 1971 there were 1.31 prime savers in the population for every prime borrower. By 1982, the ratio had dropped to about 1:1. By 1987, when the demographic cycle hits bottom, there will be only .89 prime saver for every prime borrower. (After that, the ratio begins to move up again sharply, as the baby boom spenders change into net savers.)

Put bluntly, the demographics of the mid-1980s will cut the rate and relative availability of person-

CHART 5
ACTUAL AND PROJECTED PERSONAL SAVING RATES



Source: U.S. League of Savings Institutions

al savings—reductions that will have special significance for residential real estate. Although personal savings represent about 28% of total private sector savings, they have traditionally been crucial to housing finance. *Funds supplied by personal savings have exceeded the total requirements of housing investment in the U.S. in all but nine out of the 22 years between 1960 and 1981.*

Using the life cycle of saving and demographic data, the task force's economic analysis projects a decline of the national personal saving rate to 3.8% within the next five years.**

If that occurs—and the federal deficits remain anywhere near currently projected levels—*there will be an acute shortage of funds for housing by the mid-1980s.* Moreover, such conditions of capital shortage will force interest rates to climb dramatically from current levels. Not only would

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**Assumes an average rate of growth of real disposable income of 3% a year, average unemployment rate of 7%, average after-tax rate of return of 6%.

home buying opportunities for the average resale purchaser diminish; first-time buyers would be virtually excluded from the market by prohibitive rates, as occurred in 1981-1982. The decline in the national rate of homeownership would begin again.

COMPETITION FOR CAPITAL: HOUSING'S INADEQUATE SHARE

Although it became fashionable in some quarters at the height of the residential real estate boom of the late 1970s to denounce housing for consuming too much of the nation's capital, the statistical picture has now cleared (See Table 2).

Housing's share of total investment during the 1970s was 27.5%, compared with the 32.5% it consumed in the 1950s. By comparison, business investment in plant, equipment and inventory accounted for 62.8% in the 1950s and 68.8% in the 1970s.

What about the 1980s? How big a slice of the capital pie is housing gobbling up thus far, and what is the outlook through the decade?

The answers, contrary to popular notions, are that housing's share of total investment has slipped dramatically in recent years.

TABLE 2
PRIVATE RESIDENTIAL AND BUSINESS INVESTMENTS AS PERCENTAGES OF TOTAL PRIVATE INVESTMENT IN THE UNITED STATES
1950-1982

Year	Total Residential Investment	Total Business Investment
1950	36.3%	60.8%
1951	27.7	65.4
1952	32.0	62.2
1953	33.7	63.9
1954	36.3	59.1
1955	33.5	62.3
1956	29.2	63.8
1957	27.3	63.1
1958	32.8	62.1
1959	33.4	64.8
1960	30.1	63.2
1961	30.1	61.8
1962	29.4	63.7
1963	30.6	61.7
1964	28.6	62.0
1965	25.3	67.5
1966	21.6	73.5
1967	22.2	73.0
1968	25.3	71.6
1969	24.9	72.4
1970	24.6	71.0
1971	29.8	67.8
1972	32.6	67.0
1973	27.9	66.3
1974	23.9	70.6
1975	23.7	64.7
1976	26.5	68.4
1977	29.9	71.3
1978	28.8	71.4
1979	27.2	69.8
1980	24.1	70.0
1981	21.1	73.7
1982	21.9	74.4

Source: U.S. Department of Commerce

TABLE 3
PRIVATE SAVING AND PRIVATE INVESTMENT
1950-1982
(Billions of Current Dollars)

Year	Total Private Saving	Total Private Investment	Private Investment as a Percentage of Private Saving
1950	$ 44.8	$ 56.1	125.2%
1951	55.3	63.6	115.0
1952	58.0	55.3	95.3
1953	58.0	54.6	94.1
1954	60.6	55.3	91.3
1955	67.3	71.4	106.1
1956	76.0	76.3	100.4
1957	81.6	76.5	93.8
1958	81.9	65.2	79.6
1959	84.3	79.6	94.4
1960	85.7	81.5	95.1
1961	90.7	81.4	89.7
1962	95.3	91.9	96.4
1963	97.9	98.5	100.6
1964	113.6	107.4	94.5
1965	125.7	122.3	97.3
1966	133.1	132.2	99.3
1967	143.5	129.1	90.0
1968	145.7	137.7	94.5
1969	149.5	153.5	102.7
1970	169.4	150.9	89.1
1971	187.3	170.6	91.1
1972	194.2	195.7	100.8
1973	259.2	244.0	94.1
1974	276.4	242.0	87.6
1975	331.1	232.9	70.4
1976	336.5	271.7	80.7
1977	350.4	320.0	91.3
1978	409.7	385.5	94.1
1979	478.3	436.3	91.2
1980	524.3	427.6	81.6
1981	572.2	497.6	87.0
1982	561.6	438.4	78.1

Source: U.S. Department of Commerce

Residential spending represented barely 21.1% of total private investment in 1981, a post war record low. In 1982, it rose to just 21.9%.

Business investment in plants and equipment and inventory, by contrast, rose to highs of 74.4% and 73.7% in 1982 and 1981, respectively.

Compounding housing's shrinking share of the nation's capital resources is the federal government. Its mushrooming deficits are home buyers' and sellers' number one threat in the money market today. The government's financing needs now siphon private savings away from highly productive private investment—like home mortgages—into generally less productive public sector expenditures.

During the 1950s, an annual average of 99.5% of private savings flowed directly back into private investment. In 1982, as Table 3 indicates, that proportion fell to 78.1% due primarily to the rapid growth of the federal deficit.

When the government's appetite grows so voraciously without apparent restraint, other credit users like homeowners not only have to stand back farther in line, but become increasingly vulnerable to higher rates and a net capital shortage.

That shortage, according to the projections of our economic forecasts, is on the verge of turning critical for the home mortgage sector.

Large federal deficits, fundamental changes in the system of home financing, declining private savings rates and a moderately expansive national economy are pointing to a serious potential shortage of long-term capital in the United States that will become painfully evident by 1984.

Only if the national savings rate can be increased, the deficits controlled and broader sources of reliable funds for the home mortgage market developed will American home buyers and sellers be spared the brunt of the credit crunch in the months and years ahead.

AN ACTION AGENDA TO SAFEGUARD AMERICAN HOMEOWNERSHIP IN THE 1980s

Dispassionate, probing examination of the economic prospects for homeownership in this country—something this task force has been doing for six months—cannot but lead to alarming conclusions.

Optimistic headlines about housing's rebound notwithstanding, homeownership opportunities for millions of Americans are in jeopardy.

The problems of capital shortage and affordability confronting homeownership cannot be lightly dismissed or wished away. They will not disappear by allowing government policies and private market forces to continue on their current paths. The rising tide of the nation's economic recovery alone will not raise homeownership's prospects.

Left unaltered, in fact, the economic and public policy trends we see taking shape will abort the housing recovery, encourage needless increases in mortgage rates and depress the rate of homeownership rather than increase it.

We believe that everyone in the United States with a stake in homeownership—Congress, governments at all levels, the housing and finance industries, and the general public—needs to understand the facts and to consider a course of corrective action.

Over the coming months, we will publish additional discussion papers designed to promote a widespread debate on these issues and ultimately point toward such a corrective course, based on our research and deliberations.

To provide a preliminary sense of the scope and direction of our findings, however, we will highlight some of our initial recommendations here. By doing so, we hope at least to stimulate discussion on the issues confronting American homeownership. We further seek to encourage those who already recognize the problems and are prepared to take creative steps to solve them.

RECOMMENDATIONS TO COPE WITH THE COMING CAPITAL SHORTAGE

Probably the most significant single challenge looming over the horizon for home buyers and sellers is the credit crunch of the 1984-1988 period. As noted earlier in this paper, the capital shortage will be the inevitable product of unrestrained federal deficits in an expanding economy, plus steady erosion in the national rate of savings. The latter phenomenon is directly linked to the unfavorable demographics of saving behavior developing in the United States population. It is noteworthy that despite the great inflow of funds to the financial institutions' money market deposit accounts in the early part of this year, the nation's saving rate for the first quarter of 1983 still declined from the prior quarter (from 6.0% to 5.9%). The money flowing into these accounts, moreover, is not necessarily going to be available to would-be home buyers. Many lenders are reluctant to use one-day money for long-term loans.

No one, of course, can change our immediate demographic future. Enlightened public policy, however, *can influence the rate of saving.* Public policy can change the mix of incentives so that households in the lowest saving age bracket—the 18-44 grouping—receive the same encouragement to save funds as those in older age brackets already receive.

Current American tax incentives for saving aim their appeal at upper income households—through individual retirement accounts (IRAs), Keogh and private pension plans. We strongly believe that if the national rate of saving during the next four years is to be retained at the levels necessary to support credit demands for homeownership, additional tax incentives will be needed that direct their greatest benefits at younger, lower income households—particularly first-time home buyers.

The form such incentives could take will be addressed in later task force papers. It may be individual housing accounts (IHAs) or some other targeted tax program that would not add net new revenue expenditures to the federal budget. Suffice it to say at this point that *without some change in current policy, the margin of safety that private savings deposits historically have provided for home mortgage borrowers will evaporate.*

RECOMMENDATIONS TO ENHANCE HOME BUYERS' ABILITY TO COMPETE FOR CAPITAL

The strength of the historical position of homeownership is that it has been based upon not a subsidy but an advantage for home buyers. The challenge now is to discover ways to recreate in a deregulated environment some form of nonsubsidized advantage for homeownership.

For America's home buyers to have a chance to compete for their fair share of the nation's capital resources during the coming years of credit scarcity, we believe several policy steps need to be taken now.

First, public and private sector leaders must work together to streamline the American system of housing finance, with particular emphasis on creating new mortgage vehicles attractive to institutional investors.

One such approach with a high potential for success is the taxable certificate of deposit-backed bond (CDBB).

The CDBB concept involves raising funds in the taxable bond market, using the bond proceeds to purchase federally insured jumbo certificates of deposit and financing individual home loans with the FSLIC-insured funds. Unlike use of the same technique in the tax-exempt arena, taxable CD-backed bonds create no revenue losses or increases in net liabilities for the federal government. To the contrary, our research indicates that widespread use of this capital-raising technique by savings institutions would actually cut FSLIC's risk exposure by enabling insured institutions to match the terms of their home loans better with the terms of their deposits. CD-backed bonds also offer the distinct possibility of lower loan rates to individual consumers, thanks to the FSLIC insurance backing bondholders' investments.

We believe that this innovative vehicle could draw institutional resources—especially private uninsured pension funds, local and state pension funds, and life insurance company assets—into home mortgage investments to a far greater extent than today. Pension funds and life insurance companies could become more important contributors to meeting the nation's homeownership finance needs, we conclude from our research, if attractive investment vehicles tailored to their specific requirements are offered to them. That broadened, supplemental role to existing capital sources could prove helpful to thousands of buyers in the years immediately ahead.

Along the same lines, we support continued federal and private efforts to reduce impediments to institutional investments in privately issued mortgage-backed bonds. The concept of "trusts for investment in mortgages" (TIMs), which seeks among other objectives to remove current federal tax disincentives for managers of mortgage pools, should be given very careful scrutiny to determine whether this program will in the long run enhance homeownership opportunities.

Second, the federal government should help rationalize and strengthen home finance by removing itself, once and for all, from the business of regulating FHA and VA interest rates.

An analysis of the patterns of FHA-VA rate movements during recent years leads to these conclusions:

(1) This highly visible rate index is subject to political manipulation designed to cast economic conditions in a favorable light—rather than actually assist consumers obtain financing at the lowest possible costs.

(2) The FHA-VA rate ceiling is often significantly below the market rate. This, in turn, forces home sellers to maintain or increase their sale prices to pay the required loan discount "points." FHA-VA's rate ceilings, in short, contribute unnecessarily to inflation in the cost of houses—a result diametrically at variance with the stated economic goals of the Reagan Administration.

(3) Below market fixed rate, long-term FHA-VA rates—such as the 11.5% rate set in May as market rates were heading back to 13%—serve to distort consumer demand. Buyers tend to pass by discount-priced adjustable mortgage loans (AMLs) offered in the conventional market when the FHA-VA rate is held at artificially low levels.

Third, savings institutions, the U.S. League, the federal government and the federal agencies involved in housing finance should actively promote use of the adjustable mortgage loan as the standard instrument for financing home purchases.

We believe that AMLs represent an absolutely essential tool for rationalizing housing finance in America. Not only do they enable lenders better to control their exposure to sudden increases in the cost of money, they are also lower cost vehicles in the long run for the home buying consumer than fixed rate loans containing inflation premiums. It should be recognized that the cyclicality in home finance, caused to some extent by the fixed rate mortgage, has been a major obstacle to homeownership in the recent past. Interest rate instability appears to be a fact of life for this country in view of the absence of interest rate regulation and the persistence of destabilizing influences such as large federal deficits, reliance on monetary policy to control inflation and demographic imbalances.

Fourth, in particular, the major federally chartered secondary mortgage market institutions—the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC)—should both work to promote adjustable mortgage loans and gain far greater acceptance of these loans among secondary market investors and the home buying public.

Properly priced and marketed, AMLs can and should be the principal form of home mortgage finance and can contribute to narrowing the affordability gap as well as reducing cyclicality. Proper pricing means AMLs should carry discounts below the prevailing quotes for fixed rate loans. That should help keep the home buyer's cost down. There is no formula for how large a discount is appropriate, and we would not suggest that anyone should prescribe one. Suffice it to say that, especially while fixed rate loans remain available, AMLs will have to be "sweetened" for reluctant home buyers.

FNMA has taken an important step in this direction recently by reducing the number of its AMLs to just three, which vary by maturity, and setting rate differentials not only between fixed rate conventional loans and adjustable loans, but also among the three maturities of AMLs. FNMA should continue to exercise leadership in popularizing the AML as the new standard home mortgage and should involve itself in the redistribution of AMLs among home lenders.

FHLMC should exercise leadership in its own right, and adopt a rational, differential pricing structure for AMLs as FNMA has done.

Only when adjustable loans become widely accepted by consumers—through pricing and marketing innovations—will their obvious strengths for investors become compelling to the secondary market.

Fifth, Congress should assist in rationalizing mortgage finance vehicles by enacting a federal preemption of all state prohibitions of prepayment penalties on long-term, fixed rate loans. The secondary mortgage market entities, FNMA and FHLMC, should strictly enforce prepayment penalties on long-term, fixed rate loans. Lending institutions in states where a federal preemption is exercised should be required to offer AMLs with no prepayment penalties.

Sixth, the Federal Home Loan Bank Board should restrict savings institutions' use of its long-term advances—which carry advantageous rates—to residential lending purposes (or to restructuring of liabilities backing residential loans) only. Any savings institution seeking advances of five years or longer should be required to hold in portfolio, or have commitments for, as much in residential loans as they seek in advances.

RECOMMENDATIONS TO CLOSE THE AFFORDABILITY GAP

The inability of millions of Americans during the coming years to afford a home—particularly first-time buyers, the elderly and other modest-income households—should be a matter of major national concern.

We urge Congress, local governments, the Reagan Administration and private industry to grasp the severity of the affordability threat now facing us, and to consider the damage a declining national rate of homeownership can wreak in a society like the United States.

The task force recommends the exercise of federal leadership to work with and offer incentives to state and local governments toward elimination of restrictions which unnecessarily raise the cost of housing, such as some of the restrictions found in many building and zoning codes and subdivision standards.

Regulatory authorities should avoid policies which tend to disadvantage manufactured housing at the mortgage window, and local officials should avoid placing undue restrictions on the acceptance and use of manufactured homes.

There are no quick fixes nor easy answers to the affordability problem. Having labored for months searching for answers, we must be frank to admit that closing the gap for consumers during this decade will require extraordinary cooperation between the private and public sectors.

But we are now convinced that it can be achieved.

It will require efforts to expand the availability and reduce the cost of mortgage capital, as we have discussed above.

It will require giving serious consideration to means of stabilizing credit in times of high interest rates and savings outflows. The financial system should be capable not only of providing the supply of credit to meet national needs in general but also of responding specifically where social-economic purposes are identified as matters of public policy, such as the policy of opening homeownership opportunities to the broadest possible spectrum of the American citizenry.

It will require creative approaches to provide homeownership for modest-income Americans, the elderly and the handicapped.

It will require homeownership again to assume its proper role—as an issue high on the list of national priorities—rather than be shunted aside as something the marketplace will handle in due course.

In due course, we assert, the marketplace will *not* solve the problem of affordability. It will *not* expand capital resources for mortgages, nor restrain prices of new homes.

Treat homeownership and affordability in the *laissez faire* manner of the past five years, and there will be less homeownership in America, not more.

None of us can be content with such a prospect.

Homeownership Task Force

Chairman

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Members

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Federal
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Conventional Home Mortgage Interest Rates in Early June

Conventional home mortgage interest rates offered on new commitments for the purchase of newly-built homes increased from early May to early June, corresponding to a general rise in market rates which began in mid-May. In contrast, rates on loans closed continued to decline, reflecting earlier declines in commitment rates.

In early June, major mortgage lenders offered an average effective commitment rate of 13.01 percent for conventional mortgages for the purchase of newly-built, single-family homes with a 75-percent loan-to-price ratio and a 25-year term to maturity. Although this average was only 2 basis points greater than that during early May, the increase was the first since July 1982.

The proportion of respondents offering commitments for 75-percent, 25-year loans was 79.2 percent in early June. This was more than one-half of a percentage point higher than the proportion during the prior month, as well as the third consecutive monthly increase.

The effective interest rate on conventional home mortgage loans closed by major institutional lenders decreased to 12.66 percent in early June from 12.79 percent in early May. Initial fees and charges increased only slightly -- from 2.36 percent in early May to 2.38 percent in early June.

The average contract rate on these loans was 12.20 percent, down 13 basis points from early May and the lowest rate since September 1980. The average term-to-maturity decreased to 25.9 years from 26.2 years in early May. The average loan-to-price ratio declined also -- from 74.4 percent to 73.7 percent in early June.

The proportion of the total number of all loans closed by major institutional lenders that were adjustable rate mortgage loans (i.e., contained provision for periodic rate adjustments) increased to 31 percent from 29 percent in early May. For loans on new homes the ARM proportion for early June was 38 percent, up from only 30 percent in early May. For previously occupied homes the proportion was 30 percent, up from 28 percent during the prior month. These ARM data are shown in Table 2.

Statistical Division
Office of Policy and Economic Research
Federal Home Loan Bank Board
Washington, D.C.

TERMS ON CONVENTIONAL HOME MORTGAGES

Table 1.--National Averages for All Major Lenders: Commitment Rates and Lending Policy

Term to Maturity and Month	Contract Interest Rate (%)					Effective Interest Rate (%)					Percent of Respondents Offering (%)				
	Loan-to-Price Ratio:					Loan-to-Price Ratio:					Loan-to-Price Ratio:				
	50%	75%	80%	90%	95%	50%	75%	80%	90%	95%	50%	75%	80%	90%	95%
TERM TO MATURITY: 20 YEARS															
1982 - Jan.	16.80	16.83	16.84	17.00	17.13	17.32	17.35	17.37	17.57	17.74	75.9	75.2	70.3	57.1	35.9
Feb.	16.94	16.98	17.02	17.19	17.30	17.46	17.50	17.54	17.76	17.91	76.5	75.7	70.4	57.2	36.6
Mar.	16.97	16.99	17.02	17.16	17.25	17.49	17.51	17.54	17.73	17.85	76.7	75.7	70.1	57.9	36.2
Apr.	16.85	16.87	16.90	17.03	17.06	17.37	17.39	17.43	17.61	17.66	79.2	78.1	73.0	60.4	37.2
May	16.76	16.78	16.78	16.90	16.92	17.28	17.30	17.31	17.47	17.53	78.0	76.8	72.5	60.2	37.9
June	16.64	16.65	16.66	16.80	16.81	17.16	17.18	17.18	17.37	17.41	78.5	77.7	75.3	61.7	37.8
July	16.70	16.72	16.72	16.88	16.92	17.22	17.24	17.25	17.45	17.52	79.3	78.6	73.8	62.1	38.1
Aug.	16.49	16.51	16.51	16.64	16.67	17.01	17.03	17.03	17.21	17.27	79.5	78.5	74.0	61.8	38.2
Sept.	15.69	15.71	15.68	15.76	15.70	16.21	16.22	16.20	16.33	16.29	79.5	78.6	74.3	62.5	39.0
Oct.	15.14	15.15	15.11	15.21	15.22	15.65	15.66	15.62	15.76	15.81	78.4	77.4	73.7	63.4	38.5
Nov.	14.21	14.21	14.15	14.26	14.18	14.69	14.70	14.64	14.79	14.74	79.3	78.6	74.8	63.7	39.1
Dec.	13.79	13.79	13.76	13.87	13.83	14.25	14.26	14.24	14.39	14.37	81.5	80.7	76.1	65.3	41.5
1983 - Jan.	13.49	13.50	13.45	13.54	13.57	13.95	13.96	13.92	14.05	14.11	81.7	80.5	75.5	64.0	41.7
Feb.	13.16	13.17	13.13	13.23	13.27	13.60	13.61	13.58	13.72	13.78	82.6	81.8	77.6	65.4	42.5
Mar.	12.93	12.93	12.90	12.99	13.00	13.37	13.38	13.35	13.48	13.50	81.9	80.5	76.9	65.7	43.2
Apr.	12.71	12.72	12.68	12.77	12.84	13.16	13.17	13.13	13.27	13.35	82.2	81.5	77.8	67.7	43.8
May	12.58	12.59	12.56	12.64	12.68	13.02	13.03	13.01	13.13	13.19	82.2	81.9	79.1	68.9	44.1
June p/	12.57	12.58	12.59	12.70	12.73	13.01	13.02	13.03	13.18	13.23	82.7	82.4	79.8	68.6	46.2
TERM TO MATURITY: 25 YEARS															
1982 - Jan.	16.80	16.83	16.84	17.00	17.13	17.31	17.34	17.35	17.56	17.72	73.1	72.8	69.2	56.7	35.6
Feb.	16.96	16.99	17.01	17.20	17.31	17.47	17.50	17.52	17.75	17.90	73.9	73.6	69.6	57.1	36.4
Mar.	16.98	17.00	17.02	17.16	17.24	17.49	17.51	17.54	17.72	17.83	74.7	73.8	70.0	58.2	36.3
Apr.	16.85	16.87	16.89	17.03	17.05	17.37	17.39	17.41	17.59	17.64	76.8	75.9	72.7	60.1	37.3
May	16.75	16.77	16.77	16.90	16.91	17.26	17.28	17.29	17.46	17.50	75.6	74.7	71.8	59.8	37.9
June	16.63	16.64	16.65	16.80	16.80	17.14	17.16	17.16	17.35	17.39	75.0	74.6	71.4	61.2	37.4
July	16.70	16.71	16.72	16.88	16.91	17.21	17.23	17.23	17.44	17.50	76.3	75.8	72.3	61.4	37.8
Aug.	16.48	16.50	16.50	16.63	16.67	16.99	17.01	17.02	17.20	17.25	76.5	75.9	72.2	61.1	37.9
Sept.	15.66	15.68	15.67	15.76	15.69	16.17	16.18	16.18	16.31	16.26	76.2	75.6	72.8	61.8	38.6
Oct.	15.10	15.12	15.09	15.20	15.21	15.60	15.62	15.59	15.74	15.78	76.0	74.9	72.3	62.9	38.2
Nov.	14.14	14.15	14.11	14.25	14.16	14.62	14.63	14.59	14.77	14.70	76.5	76.0	73.1	63.1	38.8
Dec.	13.75	13.76	13.74	13.87	13.83	14.20	14.22	14.21	14.38	14.35	77.8	77.4	74.5	64.4	41.0
1983 - Jan.	13.44	13.45	13.44	13.54	13.57	13.89	13.90	13.89	14.03	14.09	78.2	77.3	74.2	63.1	41.3
Feb.	13.12	13.13	13.10	13.23	13.27	13.55	13.57	13.54	13.70	13.76	78.6	78.2	75.6	64.3	41.9
Mar.	12.90	12.90	12.87	12.98	13.00	13.34	13.34	13.31	13.46	13.48	78.1	77.1	74.9	65.1	43.1
Apr.	12.68	12.69	12.67	12.77	12.84	13.12	13.12	13.11	13.25	13.33	78.7	78.2	76.6	66.9	43.8
May	12.55	12.56	12.55	12.64	12.68	12.98	12.99	12.98	13.11	13.17	78.7	78.6	77.4	67.7	43.7
June p/	12.57	12.58	12.58	12.70	12.74	13.00	13.01	13.01	13.17	13.22	79.3	79.2	78.2	67.9	45.9
TERM TO MATURITY: 30 YEARS															
1982 - Jan.	16.81	16.84	16.82	16.97	17.08	17.33	17.36	17.33	17.52	17.66	66.9	66.5	66.2	56.7	37.3
Feb.	16.99	17.02	17.01	17.18	17.29	17.50	17.54	17.52	17.74	17.89	66.9	66.5	66.1	56.7	37.0
Mar.	17.00	17.01	17.01	17.14	17.23	17.51	17.53	17.53	17.71	17.83	67.8	66.7	65.9	57.5	37.2
Apr.	16.87	16.89	16.89	17.02	17.06	17.39	17.41	17.41	17.58	17.66	70.8	69.8	69.0	59.9	38.2
May	16.75	16.77	16.76	16.88	16.91	17.27	17.29	17.27	17.44	17.30	69.5	68.7	68.5	59.5	39.0
June	16.62	16.64	16.62	16.77	16.77	17.14	17.15	17.13	17.33	17.37	69.2	68.6	68.2	60.1	38.5
July	16.71	16.72	16.71	16.88	16.90	17.23	17.24	17.23	17.45	17.50	70.2	69.7	68.9	60.1	38.6
Aug.	16.47	16.49	16.48	16.61	16.65	16.99	17.01	16.99	17.17	17.24	70.2	69.9	69.5	61.0	39.0
Sept.	15.61	15.62	15.59	15.70	15.62	16.12	16.13	16.10	16.25	16.21	70.5	70.3	70.0	61.6	40.0
Oct.	15.03	15.04	15.00	15.12	15.16	15.53	15.54	15.50	15.67	15.74	71.6	71.0	70.9	62.7	40.2
Nov.	14.07	14.08	14.05	14.20	14.15	14.55	14.57	14.53	14.72	14.70	71.3	71.4	71.7	63.0	40.5
Dec.	13.70	13.71	13.71	13.84	13.82	14.16	14.17	14.17	14.34	14.35	72.0	72.2	71.0	62.1	40.9
1983 - Jan.	13.36	13.37	13.34	13.46	13.52	13.81	13.82	13.79	13.95	14.04	72.2	72.0	71.8	63.4	43.3
Feb.	13.06	13.07	13.03	13.18	13.22	13.49	13.51	13.46	13.65	13.71	71.9	72.4	72.6	64.0	44.1
Mar.	12.84	12.84	12.79	12.93	12.94	13.28	13.28	13.23	13.40	13.43	72.9	72.9	73.3	65.3	45.9
Apr.	12.66	12.66	12.60	12.70	12.76	13.09	13.09	13.03	13.17	13.25	73.6	73.5	74.7	67.3	46.3
May	12.33	12.34	12.50	12.57	12.61	12.96	12.97	12.93	13.04	13.09	74.2	74.4	76.2	68.4	46.6
June p/	12.58	12.58	12.55	12.65	12.69	13.00	13.01	12.97	13.11	13.17	75.7	75.8	77.6	69.4	49.3

Statistical Division
Office of Policy and Economic Research
Federal Home Loan Bank Board
Washington, D.C.

TERMS ON CONVENTIONAL HOME MORTGAGES

Table 2. - National Averages for All Major Lenders: Loans Closed

Purpose of Mortgages and Month		Contract Interest Rate (%)	Initial Fees and Charges (%)	Effective Rate (%)	Term to Maturity (years)	Loan Amount ($000)	Purchase Price ($000)	Loan-to-Price Ratio (%)	Percent of Estimated No. of Loans by Loan-to-Price Ratio Class (%)				Percent of Number with Adjustable Rates
									Loan-to-Price Ratio (%)				
									70.0 Less	70.1-80.0	80.1-90.0	Over 90.0	
ALL LOANS													
1982 -	Jan.	15.13	2.46	15.69	26.1	57.5	83.5	71.7	38	37	15	10	38
	Feb.	15.03	2.52	15.60	26.3	57.7	82.0	73.8	33	35	19	13	39
	Mar.	15.03	2.78	15.67	26.3	56.1	78.8	73.9	32	38	18	12	45
	Apr.	15.35	2.90	16.00	26.3	55.3	78.1	73.9	33	37	17	14	43
	May	15.50	2.56	16.11	23.1	49.2	74.4	68.6	41	32	13	14	42
	June	14.97	2.62	15.55	26.0	54.9	77.9	73.2	36	33	18	14	41
	July	15.00	2.73	15.60	26.1	55.2	78.6	72.6	36	34	15	14	43
	Aug.	15.07	2.63	15.65	25.3	52.8	75.6	72.7	38	32	18	13	46
	Sept.	14.63	2.73	15.21	26.1	56.2	78.9	74.0	33	36	17	13	44
	Oct.	14.26	2.72	14.83	26.1	56.4	78.9	74.3	32	36	17	15	42
	Nov.	13.62	2.66	14.17	25.8	57.3	79.3	74.9	32	34	17	16	39
	Dec.	13.42	2.50	13.93	24.7	53.9	77.9	71.2	39	31	17	14	31
1983 -	Jan.	13.03	2.49	13.53	25.7	58.5	83.4	73.2	34	34	17	14	36
	Feb.	12.82	2.67	13.34	26.2	59.1	82.7	73.9	33	37	17	13	28
	Mar.	12.73	2.24	13.17	24.6	54.6	78.1	72.4	37	36	14	13	30
	Apr.	12.36	2.29	12.78	25.7	58.4	82.3	72.8	33	37	18	12	29
	May	12.33	2.36	12.79	26.2	59.0	82.1	74.4	34	33	15	18	29
	June p/	12.20	2.38	12.66	25.9	56.4	79.3	73.7	31	38	19	12	31
PURCHASE OF NEWLY-BUILT HOMES													
1982 -	Jan.	14.67	2.55	15.25	27.4	71.3	102.0	73.5	32	38	17	13	32
	Feb.	14.44	3.[illegible]1	15.12	28.1	71.1	97.3	76.5	28	33	20	19	38
	Mar.	14.93	2.90	15.67	27.4	65.4	90.0	75.7	29	36	20	15	47
	Apr.	15.13	3.28	15.84	28.6	70.4	95.7	77.2	27	33	18	22	44
	May	15.11	3.16	15.89	25.9	64.8	86.4	77.4	31	27	19	24	45
	June	14.74	3.00	15.40	27.4	66.2	89.4	77.0	29	27	23	22	44
	July	15.01	3.15	15.70	28.4	73.1	98.4	77.3	26	33	21	21	44
	Aug.	15.05	2.87	15.68	26.4	66.5	91.4	74.1	41	26	17	16	51
	Sept.	14.34	3.04	14.98	28.1	71.6	95.0	78.7	24	31	23	22	30
	Oct.	13.86	2.74	14.41	28.4	74.4	99.1	77.9	25	31	19	26	46
	Nov.	13.26	2.76	13.81	27.9	75.6	97.9	79.0	24	31	18	27	41
	Dec.	13.09	2.98	13.69	26.9	67.6	91.8	75.2	31	28	19	21	34
1983 -	Jan.	13.00	2.46	13.49	26.5	65.4	88.9	75.2	31	32	20	17	35
	Feb.	12.62	2.78	13.16	27.2	66.6	88.4	77.9	23	36	18	23	29
	Mar.	12.97	2.21	13.41	24.2	60.5	80.1	76.8	28	40	17	16	30
	Apr.	12.02	2.09	12.42	26.9	66.5	89.6	74.2	31	37	18	15	23
	May	12.21	2.44	12.67	26.8	67.8	92.1	77.3	27	31	17	25	30
	June p/	11.95	2.41	12.41	27.1	66.7	90.2	76.5	24	38	21	17	38
PURCHASE OF PREVIOUSLY OCCUPIED HOMES													
1982 -	Jan.	15.37	2.44	15.92	25.3	47.6	70.0	70.6	42	35	15	9	41
	Feb.	15.22	2.31	15.73	25.5	50.3	72.7	72.7	36	36	17	12	41
	Mar.	15.07	2.71	15.65	25.8	50.5	71.1	73.4	32	39	17	11	46
	Apr.	15.39	2.73	16.00	25.3	47.8	69.1	72.5	34	40	16	10	43
	May	15.57	2.33	16.11	22.3	42.9	69.3	65.1	46	32	12	10	39
	June	15.01	2.47	15.56	25.4	49.5	71.2	72.2	37	35	17	10	40
	July	14.96	2.60	15.52	25.2	49.2	71.1	71.6	37	36	14	13	42
	Aug.	15.03	2.56	15.59	24.9	47.7	69.2	72.5	36	35	18	12	44
	Sept.	14.71	2.64	15.27	25.4	49.7	71.4	72.6	36	38	16	11	43
	Oct.	14.37	2.73	14.95	25.2	49.4	70.5	73.4	34	38	17	11	41
	Nov.	13.74	2.61	14.29	25.0	49.7	70.8	73.6	35	35	18	13	39
	Dec.	13.44	2.47	13.95	24.8	50.0	71.6	72.3	37	34	16	13	30
1983 -	Jan.	13.04	2.48	13.54	25.4	55.3	80.5	72.6	35	35	16	13	36
	Feb.	12.88	2.65	13.40	25.8	55.7	79.3	72.9	35	38	17	10	28
	Mar.	12.61	2.27	13.05	25.2	52.6	74.7	72.4	37	37	14	12	29
	Apr.	12.42	2.34	12.88	25.4	55.6	78.9	72.8	33	38	18	12	31
	May	12.36	2.32	12.82	26.2	56.5	79.0	73.9	35	34	15	17	28
	June p/	12.25	2.37	12.70	25.7	54.3	76.6	73.9	31	38	19	12	30
COMBINED CONSTRUCTION-PURCHASE													
1982 -	Jan.	15.74	2.06	16.18	26.8	70.4	102.7	70.7	40	49	6	6	N.A.
	Feb.	15.96	2.15	16.45	25.8	62.1	93.1	71.2	35	34	29	3	N.A.
	Mar.	15.21	2.77	15.84	25.4	59.6	94.5	67.2	38	48	12	2	N.A.
	Apr.	16.05	2.61	16.76	24.6	51.1	75.7	70.8	46	32	12	10	N.A.
	May	16.26	2.39	16.90	19.5	50.9	77.2	68.5	37	30	4	9	N.A.
	June	15.80	2.33	16.37	24.6	56.2	94.9	62.4	57	33	5	5	N.A.
	July	15.58	2.64	16.17	27.7	60.8	95.9	65.0	63	24	8	5	N.A.
	Aug.	15.70	2.45	16.27	25.6	52.3	81.2	67.5	44	30	20	5	N.A.
	Sept.	15.06	2.24	15.54	25.5	62.5	95.1	68.0	44	41	12	4	N.A.
	Oct.	14.75	2.54	15.28	25.8	59.2	88.8	69.5	46	31	14	9	N.A.
	Nov.	13.86	2.87	14.44	25.9	60.3	90.3	70.1	38	41	13	8	N.A.
	Dec.	14.10	1.39	14.38	18.9	43.9	84.2	53.4	70	14	16	1	N.A.
1983 -	Jan.	13.08	3.14	13.70	26.3	64.7	98.0	67.5	51	31	8	10	N.A.
	Feb.	13.02	2.38	13.49	26.1	62.3	95.2	66.9	53	33	10	5	N.A.
	Mar.	12.91	2.06	13.32	21.5	50.0	100.2	55.0	69	22	5	4	N.A.
	Apr.	12.42	2.50	12.91	25.5	63.1	98.1	67.3	47	33	16	4	N.A.
	May	12.44	2.69	12.99	24.1	56.7	84.1	67.8	54	33	11	2	N.A.
	June p/	12.27	2.51	12.76	25.5	56.4	86.0	64.6	50	33	14	3	N.A.

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TERMS ON CONVENTIONAL HOME MORTGAGES

Table 3.-National Averages by Type of Lender: Commitment Rates, Lending Policy, and Loans Closed

Lender Type and Month	Commitment Rates and Policy on 25-Year Loans						All Loans Closed						
	Contract Interest Rate (%) Loan-to-Price Ratio:		Effective Rate (%) Loan-to-Price Ratio:		Percent of Respondents Offering (%) Loan-to-Price Ratio:		Contract Interest Rate (%)	Initial Fees and Charges (%)	Effective Rate (%)	Term to Maturity (years)	Loan Amount ($000)	Purchase Price ($000)	Loan-to-Price Ratio (%)
	75%	90%	75%	90%	75%	90%							
NATIONAL AVERAGES FOR SAVINGS AND LOAN ASSOCIATIONS													
1982-Jan.	16.77	16.94	17.30	17.50	76.7	62.4	15.06	2.80	15.70	26.5	56.9	80.4	73.5
Feb.	16.94	17.13	17.46	17.69	77.2	63.1	15.14	2.77	15.78	26.4	56.5	79.3	74.9
Mar.	16.95	17.09	17.47	17.66	77.3	63.8	15.02	2.79	15.69	26.7	56.2	78.4	74.2
Apr.	16.82	16.96	17.35	17.54	80.0	66.1	15.23	3.02	15.91	26.7	53.1	74.3	74.3
May	16.73	16.86	17.26	17.44	79.3	66.1	14.93	2.88	15.60	26.0	53.0	73.8	74.1
June	16.60	16.75	17.12	17.32	80.0	67.4	14.95	2.86	15.59	26.4	54.8	76.4	74.1
July	16.66	16.83	17.18	17.40	81.4	68.4	14.98	2.94	15.61	26.3	55.1	77.8	73.6
Aug.	16.45	16.60	16.97	17.18	80.7	67.9	14.92	2.89	15.56	25.8	52.7	73.8	74.2
Sept.	15.63	15.74	16.15	16.30	81.0	68.7	14.58	3.03	15.23	26.3	54.8	76.7	74.0
Oct.	15.05	15.16	15.56	15.70	80.0	69.4	14.28	2.80	14.86	26.1	54.0	75.2	74.4
Nov.	14.09	14.21	14.58	14.74	81.5	70.2	13.68	2.84	14.26	26.4	55.9	77.6	75.0
Dec.	13.72	13.86	14.19	14.37	84.2	72.2	13.33	2.79	13.90	26.1	54.4	75.3	74.2
1983-Jan.	13.37	13.49	13.82	14.00	83.2	71.0	13.09	2.79	13.65	26.2	59.0	82.4	74.0
Feb.	13.04	13.18	13.48	13.66	84.6	72.2	12.79	2.66	13.31	26.6	59.2	81.9	75.0
Mar.	12.83	12.93	13.27	13.41	84.3	73.2	12.61	2.56	13.11	26.7	56.1	77.4	74.3
Apr.	12.63	12.72	13.07	13.21	84.4	74.7	12.41	2.48	12.89	26.9	59.0	82.0	74.2
May	12.49	12.58	12.93	13.06	84.1	75.0	12.30	2.36	12.80	27.1	61.6	84.8	74.7
June p/	12.52	12.65	12.95	13.12	84.3	74.7	12.27	2.37	12.76	26.8	56.4	78.1	74.8
NATIONAL AVERAGES FOR MORTGAGE COMPANIES													
1982-Jan.	17.07	17.03	17.59	17.56	39.7	39.7	12.23	2.65	12.80	28.0	58.9	72.1	83.9
Feb.	17.52	17.47	17.90	17.99	46.8	46.8	13.47	4.21	14.33	30.0	62.0	81.0	80.4
Mar.	17.39	17.36	17.91	17.88	46.0	46.0	14.17	3.86	14.98	29.6	58.5	71.7	85.9
Apr.	16.92	16.89	17.41	17.38	46.6	46.6	14.82	4.56	15.81	28.9	67.3	79.5	87.1
May	16.50	16.46	17.00	16.97	47.7	47.7	15.11	4.50	16.08	29.7	69.0	85.7	84.5
June	16.33	16.30	16.85	16.82	51.0	51.0	14.40	3.73	15.19	29.2	67.5	88.5	81.7
July	16.80	16.76	17.31	17.27	45.5	45.5	15.07	3.89	15.90	29.3	69.8	92.8	80.1
Aug.	16.48	16.45	16.98	16.95	48.9	48.9	15.03	3.74	15.82	29.6	69.7	90.6	80.7
Sept.	15.14	15.09	15.61	15.57	46.7	46.7	14.25	3.36	14.95	28.8	68.3	86.3	82.8
Oct.	14.76	14.72	15.23	15.20	48.9	48.9	13.87	3.12	14.50	28.8	76.7	99.1	80.6
Nov.	13.62	13.58	14.04	14.00	48.5	48.5	13.26	2.96	13.85	27.8	67.3	86.1	82.6
Dec.	13.53	13.49	13.93	13.89	49.2	49.2	12.52	3.83	13.27	27.0	60.1	74.4	85.4
1983-Jan.	13.40	13.43	13.78	13.81	40.0	40.0	12.45	4.00	13.22	28.8	60.0	73.3	84.9
Feb.	13.28	13.31	13.67	13.70	39.8	39.8	12.34	4.12	13.13	28.1	66.7	85.7	81.7
Mar.	13.12	13.07	13.49	13.45	45.6	45.6	11.91	3.08	12.49	28.0	67.4	84.5	82.6
Apr.	13.07	13.03	13.46	13.42	46.5	46.5	11.97	2.88	12.51	29.3	68.4	88.2	80.8
May	12.82	12.84	13.20	13.22	41.4	41.4	11.98	3.21	12.58	28.9	78.6	100.7	81.4
June p/	12.91	12.95	13.29	13.32	35.2	35.2	11.55	3.50	12.20	28.3	66.9	83.0	84.3
NATIONAL AVERAGES FOR COMMERCIAL BANKS													
1982-Jan.	17.03	17.41	17.46	17.90	55.0	32.3	15.34	1.37	15.65	24.6	65.5	101.2	67.3
Feb.	17.23	17.67	17.65	18.14	56.2	28.9	14.91	1.42	15.23	25.0	62.1	89.2	73.9
Mar.	17.20	17.53	17.65	18.05	56.3	31.3	15.09	2.49	15.62	25.1	58.3	82.2	73.1
Apr.	17.12	17.39	17.58	17.91	55.9	33.8	15.70	1.71	16.09	24.5	60.7	89.1	70.9
May	17.04	17.19	17.44	17.64	52.7	29.8	16.33	1.57	16.76	16.5	39.8	73.2	56.9
June	16.94	17.16	17.37	17.63	48.3	28.8	15.01	1.52	15.34	23.5	51.8	77.7	69.5
July	16.97	17.22	17.42	17.69	50.8	29.9	14.68	2.04	15.13	24.7	53.3	75.9	70.3
Aug.	16.72	16.80	17.15	17.29	53.3	29.5	15.29	1.93	15.73	22.5	48.7	71.5	70.2
Sept.	15.98	15.92	16.44	16.44	52.7	33.3	14.56	1.69	14.91	24.8	57.1	78.5	75.3
Oct.	15.55	15.58	16.00	16.10	51.1	33.9	14.01	2.41	14.53	24.9	61.2	86.4	75.2
Nov.	14.54	14.65	14.97	15.13	52.6	32.7	13.14	1.66	13.49	23.2	66.7	87.0	77.0
Dec.	14.10	14.18	14.53	14.64	49.6	29.6	13.65	1.55	13.97	20.8	52.3	81.7	64.4
1983-Jan.	13.97	13.91	14.39	14.37	52.9	31.0	12.88	1.34	13.15	23.5	59.6	90.5	69.9
Feb.	13.63	13.50	14.05	13.98	52.7	33.6	12.92	2.35	13.39	24.5	60.5	85.1	72.1
Mar.	13.30	13.22	13.73	13.69	48.1	33.5	13.01	1.59	13.53	20.8	51.5	78.1	69.2
Apr.	12.99	13.03	13.41	13.51	53.3	36.9	12.08	1.58	12.40	21.9	55.8	81.7	68.6
May	12.90	12.93	13.32	13.40	54.9	38.9	12.44	1.78	12.79	24.1	52.3	73.5	74.5
June p/	12.85	12.93	13.28	13.40	57.4	40.7	12.13	1.77	12.47	23.1	54.3	78.5	71.5
NATIONAL AVERAGES FOR MUTUAL SAVINGS BANKS													
1982-Jan.	16.97	17.18	17.51	17.71	84.0	58.0	16.37	2.67	16.97	26.2	44.4	70.7	64.8
Feb.	17.02	17.33	17.54	17.87	84.3	61.8	15.66	2.33	16.16	26.5	52.1	83.3	67.6
Mar.	17.08	17.35	17.62	17.91	88.0	67.6	15.57	2.85	16.19	25.6	45.6	74.9	64.7
Apr.	16.99	17.31	17.52	17.88	87.7	62.6	16.02	2.79	16.65	24.9	51.1	83.9	65.6
May	16.81	17.12	17.32	17.66	86.0	65.1	16.06	2.27	16.58	23.5	42.2	70.7	64.4
June	16.78	17.00	17.30	17.54	84.2	71.6	15.66	2.38	16.18	26.1	50.7	79.8	66.9
July	16.87	17.08	17.41	17.65	84.1	64.8	15.84	2.21	16.32	25.1	48.6	77.2	66.1
Aug.	16.63	16.80	17.14	17.35	85.6	67.5	15.34	2.12	15.80	25.7	50.9	82.8	65.1
Sept.	15.78	15.93	16.28	16.45	82.9	62.5	15.39	2.59	15.95	25.5	55.5	88.2	64.0
Oct.	15.29	15.37	15.79	15.90	83.8	64.9	14.81	2.45	15.33	25.5	48.3	73.8	68.2
Nov.	14.25	14.28	14.72	14.77	84.0	67.8	14.13	3.01	14.76	25.3	47.0	73.9	[illegible]
Dec.	13.66	13.82	14.12	14.29	85.2	73.0	13.82	2.52	14.33	25.9	51.2	83.9	64.3
1983-Jan.	13.55	13.63	13.99	14.09	84.5	65.4	13.35	2.68	13.88	26.7	52.0	78.2	69.6
Feb.	13.26	13.36	13.70	13.82	86.3	65.7	13.03	2.63	13.55	25.3	51.1	81.4	65.9
Mar.	12.99	13.15	13.44	13.63	86.7	69.0	12.78	2.45	13.26	25.4	51.5	80.0	68.1
Apr.	12.75	12.86	13.18	13.32	88.3	69.1	12.66	2.35	13.12	25.0	54.4	83.8	67.8
May	12.69	12.86	13.12	13.30	90.3	72.0	12.35	2.60	12.86	25.8	53.2	84.1	68.0
June p/	12.70	12.86	13.13	13.30	91.7	72.7	12.20	2.39	12.63	26.3	58.4	89.8	67.9

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TERMS ON CONVENTIONAL HOME MORTGAGES

Table 4.—Averages for Selected Metropolitan Areas for All Major Lenders: Commitment Rates, Lending Policy, and Loans Closed

Metropolitan Area and Month	Commitment Rates and Policy on 25-Year Loans						All Loans Closed					
	Contract Interest Rate (%) Loan-to-Price Ratio:		Effective Rate (%) Loan-to-Price Ratio:		Percent of Respondents Offering (%) Loan-to-Price Ratio:		Contract Interest Rate (%)	Initial Fees and Charges (%)	Effective Rate (%)	Term to Maturity (years)	Purchase Price ($000)	Loan-to-Price Ratio (%)
	75%	90%	75%	90%	75%	90%						
ATLANTA, GA												
1982 - June	16.43	16.43	16.92	17.03	97.3	97.3	15.43	2.72	16.20	27.0	83.2	76.5
1983 - April	12.91	12.91	13.37	13.37	95.2	95.2	12.36	3.18	12.97	28.8	105.9	75.7
- May	12.52	12.52	13.04	13.04	98.9	98.9	12.24	3.27	12.87	29.0	110.8	76.0
- June p/	12.74	12.74	13.28	13.28	98.9	98.9	12.35	3.38	13.00	29.2	95.6	79.6
BALTIMORE, MD												
1982 - June	16.79	16.89	17.32	17.41	60.7	54.8	14.97	3.07	15.66	28.8	79.1	79.3
1983 - April	12.53	12.48	12.94	12.89	96.8	92.9	12.68	1.39	12.95	28.4	84.8	71.2
- May	12.57	12.52	12.93	12.90	95.6	90.2	12.60	2.05	12.99	28.9	91.1	72.3
- June p/	12.55	12.50	12.92	12.88	95.6	95.6	12.43	2.01	12.81	28.9	81.1	77.9
BOSTON - LAWRENCE - LOWELL, MA - NH*												
1982 - June	16.78	16.86	17.20	17.29	94.2	89.5	16.38	1.83	16.78	28.0	91.7	66.2
1983 - April	12.83	13.02	13.14	13.40	93.7	70.3	12.79	2.08	13.20	27.2	84.6	70.5
- May	12.63	12.76	12.93	13.14	96.2	73.6	12.52	2.20	12.94	27.7	87.5	69.1
- June p/	12.64	12.77	12.94	13.12	96.2	73.9	12.54	2.18	12.95	28.0	97.6	71.7
CHICAGO - GARY, IL - IN*												
1982 - June	17.09	17.50	17.71	18.05	68.4	25.2	14.33	3.05	15.03	23.9	96.0	67.5
1983 - April	12.89	12.96	13.47	13.55	74.2	48.7	12.28	2.96	12.85	27.5	97.7	72.3
- May	12.69	12.76	13.28	13.35	76.6	49.4	12.40	2.15	12.81	26.8	73.0	79.1
- June p/	12.66	12.74	13.24	13.33	75.2	48.8	12.38	2.95	12.94	27.0	94.6	61.4
CLEVELAND - AKRON - LORAIN, OH*												
1982 - June	16.34	16.85	16.91	17.51	71.9	53.2	14.46	4.08	15.30	28.5	73.5	71.0
1983 - April	12.85	12.95	13.24	13.50	96.3	85.4	12.50	3.42	13.16	27.9	74.7	73.8
- May	12.64	12.79	13.06	13.36	87.4	80.9	12.35	3.17	12.97	27.5	71.4	70.8
- June p/	12.30	12.80	12.95	13.40	91.1	80.9	12.30	3.45	12.97	27.6	74.6	70.7
COLUMBUS, OH												
1982 - June	16.71	16.87	17.39	17.62	85.5	85.5	14.25	2.73	14.98	23.0	80.0	74.5
1983 - April	12.66	12.73	13.20	13.32	86.3	86.3	12.35	2.81	12.90	26.5	85.7	67.2
- May	12.48	12.57	12.97	13.14	85.9	85.9	12.50	2.64	13.01	28.2	77.2	76.1
- June p/	12.30	12.55	12.98	13.10	83.3	83.3	12.27	2.56	12.76	28.6	87.8	75.5
DALLAS - FORT WORTH, TX												
1982 - June	15.49	15.51	16.35	16.37	57.8	57.2	14.07	4.38	15.00	25.6	101.8	85.3
1983 - April	12.83	12.83	13.27	13.28	40.4	40.2	12.89	2.24	13.33	26.1	98.7	76.0
- May	12.74	12.74	13.25	13.26	40.4	40.2	12.63	1.88	13.16	21.9	97.9	71.3
- June p/	12.63	12.63	13.12	13.12	62.0	61.7	12.46	2.84	13.01	27.2	102.6	80.7
DENVER - BOULDER, CO												
1982 - June	16.85	17.03	17.47	17.75	69.1	67.1	14.18	3.15	14.85	27.5	90.4	79.0
1983 - April	12.44	12.51	12.89	13.02	67.6	58.7	12.27	2.92	12.82	29.6	137.3	71.2
- May	12.33	12.42	12.78	12.95	66.6	63.0	12.23	2.36	12.67	29.8	116.5	79.8
- June p/	12.69	12.79	13.12	13.29	66.7	65.3	12.15	2.38	12.59	29.8	115.7	74.1
DETROIT - ANN ARBOR, MI*												
1982 - June	17.34	17.54	17.68	17.91	94.1	82.1	14.76	2.06	15.18	29.5	73.6	75.1
1983 - April	12.81	12.76	13.15	13.13	94.3	85.0	12.33	1.63	12.64	28.9	81.9	72.9
- May	12.81	12.73	13.15	13.09	94.3	85.0	12.09	1.91	12.45	29.1	73.1	76.0
- June p/	12.79	12.74	13.15	13.12	95.5	85.8	12.41	2.52	12.89	29.0	67.1	73.2
GREENSBORO - WINSTON-SALEM - HIGH POINT, NC												
1982 - June	16.77	17.16	17.13	17.45	100.0	78.9	15.00	1.80	15.39	22.9	81.7	70.2
1983 - April	13.12	13.11	13.54	13.53	100.0	89.4	12.70	1.80	13.05	24.9	66.9	68.4
- May	12.87	12.93	13.27	13.33	100.0	100.0	12.45	1.68	12.79	24.0	70.2	78.7
- June p/	12.78	12.81	13.26	13.30	88.5	88.5	12.28	1.79	12.63	25.2	64.8	73.0
HONOLULU, HI												
1982 - June	16.66	16.69	17.14	17.23	78.1	46.3	13.81	1.09	14.03	29.5	114.9	61.2
1983 - April	13.45	13.13	13.72	13.33	78.1	51.1	12.73	2.03	13.12	28.6	157.9	66.3
- May	13.31	12.79	13.59	12.99	78.1	51.1	12.25	2.40	12.71	28.3	158.0	65.2
- June p/	13.39	13.32	13.87	13.53	78.1	51.1	11.60	1.45	11.89	28.1	112.9	81.9

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Table 4.—Averages for Selected Metropolitan Areas for All Major Lenders: Commitment Rates, Lending Policy, and Loans Closed

Metropolitan Area and Month	Commitment Rates and Policy on 25-Year Loans						All Loans Closed					
	Contract Interest Rate (%)		Effective Rate (%)		Percent of Respondents Offering (%)		Contract Interest Rate (%)	Initial Fees and Charges (%)	Effective Rate (%)	Term to Maturity (years)	Purchase Price ($000)	Loan-to-Price Ratio (%)
	Loan-to-Price Ratio:		Loan-to-Price Ratio:		Loan-to-Price Ratio:							
	75%	90%	75%	90%	75%	90%						
HOUSTON - GALVESTON, TX*												
1982 - June	16.37	16.39	17.18	17.24	92.1	92.1	14.95	4.43	15.88	30.1	96.3	82.8
1983 - April	12.71	12.71	13.04	13.30	97.5	97.5	12.31	3.12	12.91	30.5	103.4	83.1
- May	12.59	12.59	13.07	13.14	97.5	97.5	11.91	3.36	12.33	29.5	102.2	86.5
- June p/	12.64	12.64	13.16	13.19	100.0	100.0	12.32	2.78	12.89	27.0	112.3	84.2
INDIANAPOLIS, IN												
1982 - June	16.19	16.32	16.93	17.20	80.9	80.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1983 - April	12.27	12.32	12.78	12.96	78.1	78.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
- May	12.08	12.11	12.38	12.67	78.1	78.1	12.53	3.18	13.17	25.5	74.6	72.0
- June p/	12.38	12.50	12.79	12.96	80.9	80.9	12.36	3.23	12.97	26.8	63.7	75.6
KANSAS CITY, MO - KS												
1982 - June	16.96	17.14	17.48	17.80	39.6	35.0	13.12	2.13	13.54	29.1	83.6	79.7
1983 - April	12.54	12.54	12.91	13.01	66.7	52.3	12.15	2.98	12.71	29.6	76.1	79.4
- May	12.24	12.29	12.61	12.75	57.9	48.4	12.21	2.50	12.68	29.5	75.3	77.8
- June p/	12.52	12.62	12.89	13.09	57.9	48.4	12.23	2.53	12.70	29.4	73.7	82.1
LOS ANGELES - LONG BEACH - ANAHEIM, CA*												
1982 - June	16.38	16.78	16.77	17.28	66.0	46.2	14.60	2.08	15.06	28.7	119.1	77.8
1983 - April	12.01	12.22	12.27	12.59	69.5	45.8	11.53	1.21	11.75	28.7	120.5	77.9
- May	12.03	12.19	12.31	12.61	70.2	46.2	12.02	1.66	12.33	28.9	134.2	77.5
- June p/	12.24	12.90	12.53	13.34	58.0	32.	11.88	1.63	12.18	27.9	134.4	77.2
LOUISVILLE, KY - IN												
1982 - June	16.45	16.76	16.91	17.29	100.0	100.0	14.17	2.33	14.65	27.7	64.4	71.0
1983 - April	13.10	13.29	13.49	13.73	100.0	100.0	12.62	2.39	13.09	26.0	52.0	76.9
- May	12.42	12.61	12.80	13.04	100.0	100.0	12.53	2.17	12.96	26.9	60.5	78.0
- June p/	12.56	12.68	12.98	13.13	100.0	100.0	12.39	2.68	12.90	26.8	58.4	77.5
MIAMI - FORT LAUDERDALE, FL*												
1982 - June	16.17	16.35	16.92	17.13	93.0	93.0	15.51	3.29	16.24	28.6	72.2	77.8
1983 - April	12.18	12.36	12.85	13.02	83.9	83.9	12.49	2.78	13.03	28.4	76.5	76.3
- May	12.09	12.23	12.76	12.94	83.9	83.9	12.39	3.01	12.97	28.3	80.1	76.7
- June p/	12.03	12.16	12.67	12.82	99.2	99.2	12.30	2.91	12.84	29.5	83.4	77.4
MILWAUKEE - RACINE, WI*												
1982 - June	16.20	16.10	16.79	16.84	45.6	35.9	14.98	4.63	15.97	29.9	75.8	75.1
1983 - April	12.00	11.73	12.46	12.25	50.3	39.8	12.54	1.51	12.91	14.8	92.0	36.5
- May	12.49	12.38	12.87	12.80	48.0	37.1	12.49	1.72	12.82	26.1	74.7	73.6
- June p/	12.63	12.67	13.01	13.09	50.3	39.8	12.02	1.30	12.27	24.8	86.0	53.4
MINNEAPOLIS - ST. PAUL, MN - WI												
1982 - June	15.77	15.49	16.52	16.30	24.9	19.1	13.12	3.55	13.80	29.7	82.7	77.4
1983 - April	12.65	13.01	13.17	13.46	25.7	18.6	12.10	2.61	12.59	28.0	103.5	69.7
- May	12.49	12.86	12.97	13.24	24.8	17.5	12.22	3.10	12.80	28.8	84.2	72.1
- June p/	12.60	12.98	13.00	13.25	24.8	17.5	12.31	2.45	12.76	30.0	93.0	79.0
NEW YORK - NEWARK - JERSEY CITY, NY - NJ - CT*												
1982 - June	16.74	16.93	17.39	17.58	57.7	25.5	15.93	2.92	16.57	26.6	101.0	62.0
1983 - April	12.89	12.68	13.44	13.27	67.6	39.1	12.60	3.07	13.19	26.2	109.8	63.3
- May	12.68	12.52	13.22	13.06	69.0	39.9	12.45	3.13	13.06	25.9	110.5	64.0
- June p/	12.75	12.64	13.28	13.17	71.3	39.1	12.25	3.13	12.85	25.9	114.7	62.8
PHILADELPHIA - WILMINGTON - TRENTON, PA - DE - NJ - MD*												
1982 - June	16.61	16.72	17.22	17.35	80.2	68.9	15.40	2.71	15.98	27.0	67.6	72.4
1983 - April	12.90	12.94	13.43	13.47	90.3	81.6	12.69	2.97	13.29	24.7	64.5	72.3
- May	12.85	12.85	13.37	13.37	92.2	85.4	12.59	2.90	13.17	24.1	65.9	71.9
- June p/	12.99	13.03	13.52	13.57	96.0	88.7	12.55	3.15	13.17	25.7	70.9	71.4
PHOENIX, AZ												
1982 - June	16.39	16.32	17.02	17.00	79.5	79.5	14.57	2.19	15.02	30.0	95.2	76.2
1983 - April	12.73	12.66	13.31	13.26	93.1	93.1	11.98	2.41	12.42	29.9	110.3	81.3
- May	12.61	12.54	13.19	13.14	93.1	93.1	12.08	2.59	12.56	30.0	97.2	75.9
- June p/	12.95	12.88	13.54	13.48	93.1	93.1	11.73	2.41	12.17	29.6	101.1	82.0

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Table 4.—Averages for Selected Metropolitan Areas for All Major Lenders: Commitment Rates, Lending Policy, and Loans Closed

Metropolitan Area and Month	Commitment Rates and Policy on 25-Year Loans						All Loans Closed					
	Contract Interest Rate (%) Loan-to-Price Ratio:		Effective Rate (%) Loan-to-Price Ratio:		Percent of Respondents Offering (%) Loan-to-Price Ratio:		Contract Interest Rate (%)	Initial Fees and Charges (%)	Effective Rate (%)	Term to Maturity (years)	Purchase Price ($000)	Loan-to-Price Ratio (%)
	75%	90%	75%	90%	75%	90%						
PITTSBURGH, PA												
1982 - June	16.91	17.18	17.51	17.89	83.2	40.2	15.36	1.82	15.96	23.0	67.1	64.5
1983 - April	13.84	12.79	14.36	13.39	97.0	58.3	12.17	2.99	12.76	25.8	78.5	71.3
- May	13.83	12.75	14.34	13.35	97.0	58.3	12.26	3.08	12.85	26.5	61.0	72.4
- June p/	12.81	12.56	13.31	13.15	97.0	58.3	12.08	3.04	12.66	25.7	63.9	71.4
PORTLAND, OR - WA												
1982 - June	17.22	17.62	17.75	18.20	97.7	97.7	14.97	2.20	15.42	29.4	95.6	72.2
1983 - April	13.30	13.86	13.97	14.33	100.0	100.0	12.12	2.22	12.53	29.7	78.0	78.3
- May	13.08	13.36	15.55	13.85	100.0	100.0	12.15	2.84	12.68	30.0	85.8	79.7
- June p/	12.99	13.26	13.46	13.74	100.0	100.0	12.11	2.26	12.53	29.2	92.1	82.2
ROCHESTER, NY												
1982 - June	16.46	16.85	17.34	17.85	66.0	66.0	15.35	2.98	15.98	29.4	71.1	82.3
1983 - April	12.85	12.83	13.62	13.60	100.0	100.0	12.53	2.72	13.05	27.2	79.5	73.7
- May	12.73	12.73	13.39	13.39	100.0	100.0	12.79	3.21	13.42	28.4	60.9	77.3
- June p/	12.88	12.86	13.38	13.36	100.0	100.0	12.32	2.36	12.80	77.4	63.2	77.5
ST. LOUIS, MO - IL												
1982 - June	16.23	16.80	16.90	17.60	93.4	68.0	14.24	2.51	14.75	26.5	69.7	73.1
1983 - April	12.67	12.93	13.17	13.07	90.1	90.1	12.66	2.20	13.10	22.6	61.5	72.7
- May	12.37	12.59	12.85	13.12	91.8	91.7	12.51	2.34	12.97	24.4	67.9	72.4
- June p/	12.25	12.48	12.69	12.95	91.8	91.7	12.11	1.91	12.48	23.7	59.6	70.8
SALT LAKE CITY - OGDEN, UT												
1982 - June	16.81	17.08	17.23	17.52	52.0	51.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1983 - April	12.69	12.70	13.13	13.16	73.3	75.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
- May	12.58	12.55	13.03	13.00	75.3	75.1	12.44	3.18	13.05	28.4	90.6	66.9
- June p/	13.02	13.05	13.48	13.51	74.8	74.6	12.66	1.87	13.02	29.8	99.3	77.7
SAN DIEGO, CA												
1982 - June	16.39	16.45	16.85	16.93	74.0	74.0	15.72	1.34	16.01	29.8	120.4	72.1
1983 - April	12.08	12.29	12.49	12.78	23.4	23.4	12.07	1.81	12.41	30.3	100.5	78.4
- May	12.29	12.50	12.71	13.00	23.4	23.4	11.85	1.62	12.15	30.2	132.4	75.5
- June p/	12.46	12.67	12.88	13.18	23.4	23.4	12.01	1.43	12.27	29.8	120.7	80.3
SAN FRANCISCO - OAKLAND - SAN JOSE, CA*												
1982 - June	17.55	17.24	17.98	17.71	80.6	63.9	15.15	2.45	15.76	29.3	148.4	70.0
1983 - April	12.03	12.25	12.38	12.73	47.6	36.7	12.04	1.66	12.35	30.2	143.4	77.8
- May	12.19	12.28	12.54	12.75	52.1	37.5	12.20	2.04	12.58	30.1	133.0	77.0
- June p/	12.12	12.33	12.48	12.81	49.7	38.1	11.79	2.17	12.19	28.4	140.5	78.8
SEATTLE - TACOMA, WA*												
1982 - June	16.47	16.38	16.92	16.87	89.9	88.9	14.87	3.69	16.24	27.0	101.6	80.3
1983 - April	13.05	12.86	13.48	13.30	100.0	99.0	12.25	2.65	12.74	29.7	101.4	75.8
- May	12.70	12.52	13.13	12.96	100.0	98.7	12.39	2.33	12.84	28.1	91.2	76.6
- June p/	12.80	12.80	13.19	13.21	100.0	98.7	12.41	2.74	12.93	27.6	85.9	81.9
TAMPA - ST. PETERSBURG, FL												
1982 - June	16.27	16.55	16.95	17.27	96.1	96.1	13.99	3.26	14.66	25.9	81.8	78.9
1983 - April	11.80	11.83	12.37	12.42	73.7	73.7	11.87	2.94	12.46	26.3	76.2	75.4
- May	11.92	11.95	12.50	12.55	87.3	87.3	11.85	2.89	12.38	28.2	73.5	74.7
- June p/	12.03	12.06	12.60	12.65	87.3	87.3	11.49	3.08	12.06	26.2	73.8	75.3
WASHINGTON, DC - MD - VA												
1982 - June	16.53	16.55	16.96	17.01	67.0	62.0	14.44	1.92	14.84	29.6	126.0	77.1
1983 - April	12.87	12.85	13.25	13.23	83.4	84.7	12.56	2.16	12.98	28.5	126.9	76.8
- May	12.78	12.76	13.16	13.14	85.0	84.2	12.40	2.14	12.81	29.9	144.7	76.4
- June p/	12.61	12.58	12.98	12.96	82.9	82.1	12.68	2.09	13.07	28.9	140.3	74.4

NA - Not Available. p/ - Preliminary.
Standard Metropolitan Statistical Areas (SMSAs) except those areas marked with an asterick (*), which are Standard Consolidated Statistical Areas (SCSAs).
Area definitions available upon request.

TECHNICAL NOTES

General Notes

All series indicate weighted averages of selected characteristics of fully amortized conventional first mortgage loans that are both secured by and for purchase of single-family nonfarm residential properties. Data are compiled by the Federal Home Loan Bank Board, in cooperation with the Federal Deposit Insurance Corporation, from information reported by a sample of major mortgage lenders.

The major mortgage lenders surveyed consist of savings and loan associations, mortgage bankers, commercial banks, and mutual savings banks. Such lenders have accounted for some 90 percent of all conventional home mortgage loan originations since 1972. Substantially all of the largest lenders of the covered types are included in the survey sample, which also include smaller institutions randomly selected from a number of geographic area/lender size strata with the sampling fraction being reduced as size declines.

Information reported by individual lenders is weighted on the basis of the relationship of the single-family conventional mortgage holdings (or other measure of size) of the lenders in the sample in each of a number of strata (defined in terms of lender type, lender size, and geographic location) to the holdings of all lenders in a stratum.

The cost of private (i.e., non-Government) mortgage insurance is excluded from the averages. Most lenders make a separate charge for such insurance which is excluded from reported fees and charges. In the case of the relatively small number of lenders which include such a charge in the contract rate, however, a downward adjustment is made in the reported contract rate to eliminate such charges and make the rate comparable to that charged by other lenders; the effect of this adjustment is minor, reducing the contract rates by only 1 or 2 basis points.

Fees and charges are defined to include all fees, commissions, discounts and "points" paid by the borrower, or seller, in order to obtain a loan, including any general charge for making the loan and specific charges made to offset specific lending expenses. Charges for mortgage, credit, life or property insurance, property transfer costs, and title search and insurance costs are excluded, but other fees are reported without deducting payments made by the lender to others for services rendered.

The effective interest rate includes the contract interest rate plus fees and charges amortized over a ten-year period, the latter being a rough estimate of the actual average life of conventional mortgages.

Specific Notes for Lending Policy

These series indicate current lending policy on conventional first mortgage loans for purchasing newly built, single-family homes on the fifth full working day of a month for specified typical combinations of maturities and loan-to-price ratios. Averages, moreover, are for fixed-rate, as opposed to variable rate, mortgages only. Additionally, only general loan policy is presented, without adjustment for good, or poor, risk situations.

The averages are weighted, with the weights representing the relative total lending volumes of participants during a fixed base period as estimated from the loan volumes reported in the closed loan survey.

All averages in these series are subject to somewhat larger and more erratic month-to-month variations than the closed loan series averages since each sample participant reports a single policy rather than a set of actual transactions. Geographic area averages are based on the locations of the home offices of the reporting institutions. Users, therefore, are encouraged to substantiate these data with collateral information wherever possible.

Specific Notes for Closed Loans

These series cover all purchase loans closed (i.e., entered on the books) by participants during the first five full working days of a month. During months when lending terms are in the process of change, the averages may not be representative of the month as a whole. Most mortgage lending, moreover, is based on prior commitments made by lenders. The averages, therefore, should not be interpreted as measures of "market rates and terms" during the reporting period. The commitment rate/lending policy series should be used for this purpose. Moreover, the closed loan series will reflect changes in relative lending volumes among lender types, among geographic areas, and among sizes of lenders.

Adjustable Rate Mortgage Loans are loans in which there is a provision for periodic adjustments in the contract interest rate.

Averages for the "purchase of newly-built homes" are for properties where construction has been completed and the dwelling units (including detached and semi-detached primary residences, condominium units, vacation homes, and second homes) have never been occupied; averages for the "purchase of previously-occupied homes" are for properties which have had a prior owner; averages for "combination construction-purchase" loans are for properties where construction financing is coupled with a permanent, long-term loan in a single transaction. Averages for "all loan purposes" include loans of all three above-defined types.

Geographic area averages are based on the location of the property securing loans. These data, moreover, are subject to more sampling error and more erratic fluctuation than the national averages. Consequently, month-to-month changes in these averages should be interpreted with caution and substantiated with collateral information wherever possible and use of an average of several months data is recommended in most instances.

Mrs. **Schroeder**. Thank you very much. I will move to our next witness, Cushing Dolbeare.

We are happy to have you here representing the National Low Income Housing Coalition.

STATEMENT OF CUSHING DOLBEARE, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

Ms. **Dolbeare**. Thank you very much. I appreciate very much the opportunity to testify, particularly your interest in the important subject of housing for families, youth and children.

I would like to begin by making a distinction between housing problems and housing inconvenience, because it is an important distinction as we look at our housing needs in this country.

I would define a family with a housing *problem* as being a family which is unable to get housing that meets decent standards of quality in the city or community in which they wish to live and still have enough money left over to pay for the other essentials of life.

That is the root difficulty, for whatever reason: lack of income, or family composition, or race, or the unavailability of housing in the market. That is a housing problem.

I would define as a housing *inconvenience* the difficulty, perhaps, of purchasing a home when one wished to purchase rather than rent, the difficulty of living in one neighborhood rather than another, perhaps not having a large enough unit, and so forth. I don't wish to minimize housing inconveniences, but the successes of housing policy in this country have, by and large, been focused on dealing with our housing inconvenience, and we have ignored for too long our housing problems.

We have had subsidized housing programs for low-income people in this country since the middle 1930's.

In all of that time, we have produced fewer than 4 million occupied housing units produced through the Department of Housing and Urban Development, (ignoring the Farmers Home Administration because, with few exceptions, they don't deal with very-low-income people). We have 84 million households in this country. That means that fewer than 1 household in 20 is living in subsidized housing.

If that were the need for subsidized housing, that would be fine. It is not the need for subsidized housing, unfortunately.

We have not moved in this country to provide housing assistance to very low income families who need it, as we have with health care, and as we have with education, and as we have with hunger. We do, ironically, have in housing an open-ended subsidy program through the tax system for middle- and upper-income people, whether they need it or not. I am referring to the homeowner deductions for mortgage interest and property taxes.

Page 2 of my testimony shows what has happened just since 1980. In 1980, the tax subsidies for housing, primarily but not exclusively for homeowners, cost the Federal Treasury $26.5 billion. In 1980, the budget authority for low-income housing assistance, and that is the maximum annual amount payable under the contracts multiplied by the term of the contract—so that some of that money won't be spent until the 21st century was also approximately the same amount, $26.7 billion.

What has happened since? I will leave out 1984, because Congress just decided last week, in passing the HUD appropriation bill, how much would actually be provided in 1984. In 1983, the Treasury estimate of the cost of housing-related tax subsidies was $40 billion, and the amount of budget authority—and again, this is long term, 15- 20-year budget authority appropriated for low-income housing assistance had dropped to $9 billion.

I think that to argue or to contend that we have any form of fairness in our pattern of providing housing assistance to people in this country in the face of that information is simply to ignore reality. That is not intended as a partisan statement. I think it is only sheer coincidence that the last 3 years have been under a Republican administration. During the Carter administration, the disparity between the increase of tax expenditures for housing and the amount of assistance that was provided for low-income people was almost as great. Indeed, in 1980, if you added up all of the outlays that the Federal Government, through the Department of Housing and Urban Development and all of its predecessor agencies, had ever made for low-income housing assistance, from the time the first payment went out in the 1930's, you would get only to $26 billion.

The cost of housing subsidies through the tax system in 1980 alone was more than the entire cumulative amount that the Federal Government had ever spent for providing housing assistance for low-income people.

I have considerable detail in my charts about the housing situation of families with children.

I would like to call your attention to, first of all, to the fact that by and large, if you can become a homeowner in this country, you have made it, in housing terms. I don't want to minimize the housing problems of low-income homeowners who can't pay taxes or make repairs or the large number of low-income rural homeowners that really live in shacks, not homes, but once you can purchase housing in this country, you have made it.

The vast majority of poor people in this country are renters, and particularly low-income families are renters. Median renter income, regardless of family type, tends to be somewhere between 50 and 60 percent of median owner.

Furthermore, the lower your income, the more you are likely to pay for rent as a proportion of income. For example, I have a chart toward the end of my testimony that shows by income group the percentage of income paid for shelter. More than 80 percent of all renter households with incomes below $3,000, and there were 2½ million of those households, paid over 50 percent of their income for rent.

You look at renter households with incomes of over $20,000, there are 5.2 million households in that income range. Over 90 percent paid less than one-quarter of their income for shelter, so that you find, by and large, the lowest income families have to pay most of their already inadequate incomes for shelter.

Well, part of that is because there simply is not enough housing in the housing stock to meet the needs of low-income renter families. If you just do a kind of a simple-minded approach and ignore all the major housing problems, except the problems of housing supply and cost, and assume that all the housing in the country meets decent standards of quality, and assume no discrimination against families with children or because of race, religion, or whatever else, if you assume that all of the units that are needed happen to be of the right size and in the right location for the people that want to live in them, and look at how many units we have and how many households we have, you will find that we have more than twice as many very poor families as we have very low rent units. These are 1980 figures. There were 2.76 million renter households with incomes below $3,000. If your income is $3,000 you can afford to pay 25 percent of your income, $63 per month for rent. Everybody knows it is impossible to provide decent housing without subsidy at $63 a month, or even $105, the next income category. But in 1980 there were only in the entire inventory—regardless of location, quality or availability—1.2 million rental units renting for $63 a month or less.

Cumulatively, take the number of renter households with incomes of below $7,000. There are four million more renter households in that income category than there are rental units.

The President's Commission on Housing, which I was privileged to be able to work with last year, made a report on the extent of the low-income housing problem. I would regard it as the lowest responsible estimate currently available. They defined the needy category as households with incomes below 50 percent of the median.

There are 20 million such households in the country, half are renters and only one-quarter of those renters are receiving housing assistance.

That means that for each very low-income household now living in assisted housing, there are three other renter households who need housing assistance and who are unable to get it because we have not provided it for them.

A disproportionate number of renter households have incomes in that very low income category.

Fifty-five percent of all black renter households, and 48 percent of all Hispanic renter households have incomes below 50 percent of median.

Forty percent of all renter households—single person, one-, two-, three-, four-person households,—have incomes below 50 percent of the median. Forty-six percent of all five-person households have incomes below 50 percent of the median, and 53 percent of all renter households, regardless of race, with 6 persons or more, have incomes below the 50 percent median.

What about our subsidized housing programs, programs intended to provide assistance? The last table in my testimony shows renter households and subsidized housing, by selected household characteristics. Look at the percentage of households with incomes below the poverty level who are currently receiving housing assistance. You will find that only 13 percent of all households with incomes below the poverty level in this country are living in assisted housing. Twenty percent of all poor households in central cities are living in subsidized housing, partly because there tend to be more renters in central cities, and our subsidized housing programs are primarily rental programs. Only 10 percent of households outside of metropolitan areas are in assisted housing.

We have done somewhat better by some of the more vulnerable categories. Twenty-two percent of all minority households with incomes below the poverty level are living in assisted housing, and 22 percent of all female-headed households with incomes below the poverty level are living in assisted households, and that compares with only 6 percent of all married-couple families.

Well, it all looks relatively good until you stop and turn the figures around, which is the way we should look at them.

Four out of five black households with incomes below the poverty level are unable, almost after half a century of providing housing assistance, to receive it.

Four out of five female-headed households needing housing assistance, are unable to receive it.

I could go on and on. I know our time is late.

The figures in a sense are only the tip of the iceberg. We also need to address the question of the suitability of the housing assistance that we provide for families with children. Why do we put families with children in high-rise public housing? Well, we tried to stop back in 1968. We built less high-rise housing. But why have we never had a low-income homeownership program available for families with children? We provide homeownership subsidies for everybody who has enough income to itemize their income tax deductions on a Form 1040, but not for low income people. We still build housing too often as projects, separated and segregated from the rest of the community. We impose all kinds of rules.

We are so far from any meaningful approach to dealing with housing for low income families that I think we should regard this as a national disgrace, particularly when, although sociologists tend to talk about this more than "housers" do, the type of housing that people are able to obtain influences to a significant degree their family life, what they can get out of their education, whether or not they grow up with lead poisoning. I think that the neglect to which we have submitted this important part of family life in, national policy creates a great void here.

We have had a lot of rhetoric about decent homes, but we have had less and less action.

In conclusion, I would just like to say that because of the long leadtime that it takes for anything to happen in housing, in several years we are going to discover that we have done some very terrible things.

Just in broad outline, over the last decade, we got the reservations for providing an escalated amount of assisted housing under the Ford administration; now we got the starts under the Carter administration; we are getting the completions. Subsidized housing completions have been at the highest levels ever over the last 3 years.

The homelessness and other symptoms of a tightening housing crisis are a result of the recession and economic circumstances. We have not yet seen the impact of any of the devastating housing cuts that we have made in the last 3 years, and housing has been cut more than any other single program.

Thank you very much.

[Prepared statement of Cushing N. Dolbeare follows:]

PREPARED STATEMENT OF CUSHING N. DOLBEARE, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION

SOME PERSPECTIVES ON LOW INCOME HOUSING NEEDS

Statement of Cushing N. Dolbeare, President, National Low Income Housing Coalition and Executive Secretary, Low Income Housing Information Service, before Task Force on Economic Security, House Select Committee on Children, Youth, and Families, July 18, 1983.

This is a preliminary effort to address, in the words of your invitation to testify, "the housing problems of low and middle income families who cannot afford to buy and have difficulties finding adequate affordable housing."

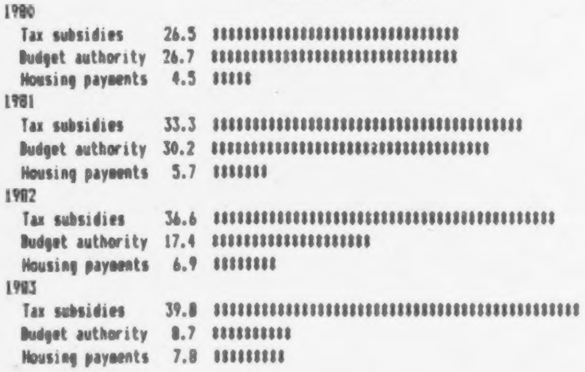
Housing is a critical influence on our family life, so it is appropriate that this committee is exploring housing needs. Unfortunately, however, "housers" have all-too-often dealt with the physical characteristics of the dwelling, or its financing, rather than the role of housing and housing policy in shaping our families and our communities.

This nation has much to be proud of when we consider our housing accomplishments. Home ownership has become regarded as the norm and the vast majority of households with a steadily employed member have, in fact, become home owners. In 1981, 65% of all households were owners, but 88% of all households consisting of married couples with no nonrelatives were owners. Housing quality has also improved dramatically. The first census of housing was taken in 1940 and found 45% of all occupied dwelling units were either dilapidated or lacked basic plumbing facilities. While truly comparable data for 1980 are not available, the 1980 figure is almost certainly below 5%.

We also have much to be ashamed of. There are still several million households living in housing without basic plumbing or so seriously substandard that they are dangerous to health or safety. Even more millions of households are unable to obtain shelter without spending more than half their incomes for it -- and these are our lowest income households, who then cannot afford the other necessities of life.

Almost half a century of providing assisted housing for low income people has produced fewer than four million occupied, subsidized housing units -- about three years production of unsubsidized housing units. Through a historical accident, the federal government provides billions of dollars annually in home owner subsidies through the tax system, which cost many times as much as direct housing subsidies, for middle and upper income people. These subsidies are believed by many to be sacrosanct. But, while we have entitlements to housing assistance for middle and upper income home owners, we have refused to provide comparable assistance for low income households. Not only is there no entitlement to assistance, but we do not even have subsidized home ownership programs for low income people.

The disparity between housing assistance provided for low income people and subsidies for higher income groups is dramatic and growing. The cost to the Treasury of home owner mortgage interest and property tax deductions alone has risen by 63% since 1980: from $23 billion in 1980 to an estimated $37.5 billion in 1984.



HOUSING TAX SUBSIDIES, NEW BUDGET AUTHORITY AND HOUSING PAYMENTS, 1980-84
(Billions of dollars)

Discrimination and discriminatory practices have been built into the operations of the private housing market. The federal fair housing law does not even contain meaningful enforcement provisions and the proportion of state and local governments which are recognized as having "substantially equivalent" protections is minuscule.

Indeed, housing policies and housing patterns have created or intensified many of the other problems which this committee is addressing. I believe that housing, more than any other single factor, is responsible for the divisions in our society between rich and poor, minority and majority, urban and suburban. By excluding minority and low income people from new housing and new neighborhoods, we have excluded them from decent schools, from community facilities and from job opportunities.

While it would be a mistake to minimize the housing problems of low income home owners, particularly in rural areas, broadly speaking home ownership is a signal that people have "made it", that they have not only shelter but economic security. Renters, on the other hand, are all-too-often people who are left out, or in danger of being thrown out.

Chart A, showing 1981 median incomes by tenure and selected housing characteristics, throws the differences between renters and owners into sharp relief. The median incomes of owners with children are roughly twice those of renters. There are twice as many owner households with children under 18 as there are renter households. Significantly, the difference is far smaller, as Chart B shows, for households with children under six.

Table 1 shows incomes of renters and owners by selected household characteristics in 1981. Only 37% of all households had any children under 18; only 9% had children under six; and only 4% had three or more children. It is worth noting that, while almost four-fifths of all married couple families were owners, 55% of female householders and 52% of male householders with no spouse present were renters. This appears to be a function of both income and race: the rate of homeownership increases sharply for households with incomes above $35,000, except for black households.

The strong preference for home ownership in our society is perhaps partly a function of the substantial federal subsidies which are provided for home owners. But it also reflects some deeper values. One indication of the kinds of housing choices people would make if income were not a factor is provided by the behavior of people who can afford to choose. As Table 1 shows, over 90% of all households with incomes above $50,000 are home owners. The only households where this ratio is less than 90% are units with nonrelatives and male householders with no spouse present -- and the numbers in these categories are hardly significant.

Affordability is the major housing problem facing most low income renter households. Since 1974, federal housing legislation has set the threshhold for housing assistance at 80% of median income and has defined households with incomes below 50% of median as "very low income". As Table 2 shows and estimated 61% of all renter households had incomes below 80% of median in 1980, and 40% had incomes below 50% of median. The proportions were significantly higher for larger households and for minority households. Whereas 55% of all black renter households and 48% of all Hispanic renters had incomes below 50% of median, only 36% of white renter households fell in this very low income category.

This being the case, it is small wonder, as Chart C shows, that the vast majority of very low income renters pay more than half their incomes for shelter. The contrast with higher income households is striking. (In addition to the almost six million renter households paying over half their incomes for shelter, there are another 2.5 million owners who do so. As with renters, their incomes are predominantly below $10,000.)

There are, quite simply, a lot more poor renter households than there are low rent units in the housing inventory (see Chart D). Table 4 shows, by race and residence in cities or elsewhere, the number of renter households in 1980 and the number of affordable units in the housing inventory, using either the 25% of income affordability standard or a 30% of income standard. The bottom line is that there are four million more renter households with incomes below $7,000 than there are units renting for $146 per month or less, including utilities, which is what a household with a $7,000 income can afford. There are almost twice as many households with incomes below $3,000 are there are units renting for less than $63.

Moreover, only 19% of the renter households in this lowest income bracket lived in subsidized housing in 1980. More than half, 51%, were households of two or more people; 5% were households of five or more; 49% were single person households. More than one quarter, 27%, were female-headed households; 13% were married couples with no other nonrelatives in the household; 6% were male-headed households. There were children under 18 in 27% of the households, with 6% having three or more children. Only 4% paid less than 25% of income for rent; 59% paid 60% or more. Ten percent lived in units lacking some or all plumbing facilities; 4% were overcrowded. Twenty-nine percent were black; 8% were of Hispanic origin. All had incomes below 75% of the poverty level. Forty-six percent lived in central cities; 31% lived outside of metropolitan areas.

These households are the poorest of the poor, but in 1980 they were less than one third of all households with incomes below the poverty level. There were also another 3.3 million renter households with incomes above $3,000, but below the poverty level, and another 4.9 million owner-occupants below the poverty level.

In other words, when we speak of low income housing needs, we are, by the most conservative estimates, talking about millions of people: 29 million in all, including more than 11 million children (4 million of them under six) and 4 million elderly people.

President Reagan's Commission on Housing, in its report last year, used a less conservative estimate of housing need: households with incomes below 50% of median. There are 20 million such households, half of them renters. Only one quarter of these renter households are now in subsidized housing. In other words, for each family now in low income housing -- after close to half a century of providing housing assistance -- there are three others who need it, who probably want it, and who can't get it.

1970-80 HOUSING TRENDS

The decade of the 1970's was one of rapid housing change. Among other things, it saw, with the completion of almost one million units authorized by the Housing Act of 1968 and an additional 1.2 million units under the Section 8 program, a substantial increase in the subsidized housing inventory. Even so, while housing progress was marked for most people, low income people fell further and further behind.

Between 1970 and 1980, according to the Annual Housing Survey, the number of occupied housing units increased by 27%. Home ownership continued to rise, though more slowly than during the 1950's and 1960's. In 1980, 65.6% of all households owned their homes, compared to 62.9% in 1970. The number of units lacking some or all plumbing facilities -- a traditional measure of housing quality -- dropped by 46%. Nevertheless, there were still 2.4 million units lacking plumbing.

Tenure continued to be closely related to income. In 1980, more than half of all households with incomes below $10,000 rented. In contrast, only 29% of those with higher incomes rented.

Housing costs have risen far more rapidly than incomes. In 1970, median renter income was $6300 and median rent was $108. By 1980, median renter income had risen to $10500, a 67% increase, but median rent was $241 per month, a 123% increase. Converted to constant dollars, we estimate the change in income and rents or housing costs as follows:

Income and housing costs, 1970 and 1980, in 1972 constant dollars

	1970	1980	Change	
Median renter income	$6810	$8316	$1506	22.1%
Median rent	117	191	74	63.2%
Median owner income	$10486	$15682	$5196	49.6%
Median value	$18486	$40630	$22144	119.8%
Median monthly cost				
Unmortgaged	65	104	39	60.0%
Mortgaged	186	291	105	56.5%

Moreover, the greatest problems were at the bottom of the income scale. It is almost impossible to convey the intensity and magnitude of the housing problems of our very lowest income renters. Chart E shows the changes in housing affordability and household characteristics for renters between 1970 and 1980. As the chart shows, the entire increase in the number of renter households during the decade was in single-person households or single parent households, both male and female.

The increase in the affordability problem during the decade is dramatic. In 1970, there were 5.7 million households with incomes under $3,000 and another 2.7 million households with incomes between $3,000 and $5,000. At the same time, there were 8.2 million units renting for less than $75 per month (30% of $3,000) and another 6.7 million units at rents between $75 and $125 per month. In other words, there were 5.6 million more units renting for less than $125 per month than there were renter households with incomes below $5,000. Even so, the situation was far from satisfactory: many of the units in this low rent range were seriously substandard; or they were the wrong size; or they were in the wrong locations; or the owners discriminated against would-be tenants; or, finally, they were occupied at bargain rents by higher income households.

By 1980, the situation was infinitely worse. Moreover, although hard data is not yet available, we have every reason to believe that the past two years have been even grimmer. In 1980 there were still 2.7 million renter households with incomes below $3000, but the number of units renting for less than $75 had dropped to 2.4 million. There were also 0.6 million more renter household with incomes between $3000 and $5000 than units at rents between $75-125.

> In 1970, a family with an income of $3,000 (the top of the range) at the median rent of $85 paid by the 5.8 million renter households with incomes below $3000 would spend 34% of its income for shelter, leaving $165 for all other needs.
>
> In 1980, the family with an income of $3,000 at the median rent of $179 paid by the 2.7 million households with incomes below $3,000 would spend 72% of its income for shelter and have only $71 for all other needs.

Moreover, only 19% of the renter households in this lowest income bracket lived in subsidized housing in 1980. More than half, 51%, were households of two or more people; 5% were households of five or more; 49% were single person households. More than one quarter, 27%, were female-headed households; 13% were married couples with no other nonrelatives in the household; 6% were male-headed households. There were children under 18 in 27% of the households, with 6% having three or more children. Only 4% paid less than 25% of income for rent; 59% paid 60% or more. Ten percent lived in units lacking some or all plumbing facilities; 4% were overcrowded. Twenty-nine percent were black; 8% were of Hispanic origin. All had incomes below 75% of the poverty level. Forty-six percent lived in central cities; 31% lived outside of metropolitan areas.

These households are the poorest of the poor, but in 1980 they were less than one third of all households with incomes below the poverty level. There were also another 3.3 million renter households with incomes above $3,000, but below the poverty level, and another 4.9 million owner-occupants below the poverty level.

In other words, when we speak of low income housing needs, we are, by the most conservative estimates, talking about millions of people: 29 million in all, including more than 11 million children (4 million of them under six) and 4 million elderly people.

President Reagan's Commission on Housing, in its report last year, used a less conservative estimate of housing need: households with incomes below 50% of median. There are 20 million such households, half of them renters. Only one quarter of these renter households are now in subsidized housing. In other words, for each family now in low income housing -- after close to half a century of providing housing assistance -- there are three others who need it, who probably want it, and who can't get it.

SUBSIDIZED HOUSING PROGRAMS HAVE HELPED, BUT FAR MORE IS NEEDED

The achievements of our housing assistance efforts over the last half century sharply contrast with this picture of housing need. At the end of fiscal 1984, if all goes as planned, HUD will be providing housing assistance to not quite four million households and the Farmers Home Administration will be assisting another million.

A rough picture of the characteristics of households living in much assisted housing is provided by a recent Census Bureau report. The report covers only rental housing, omitting the owner-occupied units assisted under HUD's Section 235 and FmHA's 502 programs. Thus, the total picked up by this survey is well below the actual number of units subsidized. It includes occupied units assisted through public housing, Section 8 and other rental subsidy programs. About 11% of all renter households received federal housing assistance in 1981. But, significantly, almost one third of all female-headed households with incomes below the poverty level lived in assisted housing, as did almost 37% of elderly households. Some 43% of assisted housing tenants also received food stamps, and four fifths of these households were below the poverty level. (See Table 6.)

Table 7 shows some of the characteristics of low income housing residents. Three fifths were white. Three fifths were family households, but more than half of these were headed by women with no husband present. There were children in just under half of all households. Half of all assisted housing was in central cities; another quarter was outside metropolitan areas. (See Table 8 for additional details).

WHERE NEXT: CURRENT TRENDS IN ASSISTED HOUSING

The Special Memorandum of the Low Income Housing Information Service, which is attached to this statement, reviews trends in housing assistance over most of the last decade in addition to describing the cuts and program changes, now largely rejected by the Congress, proposed for fiscal 1984.

Broadly stated (and grossly oversimplified), not only has the last decade seen the largest increment in assisted housing since the federal government began providing it in the 1930's, but, because of the time it takes between Congressional action to provide housing and getting it built and occupied, the largest number of program reservations (the first step in the process) came during the Ford administration; the largest number of construction starts during the Carter administration; the largest number of additional subsidized units actually occupied will apparently come under the Reagan administration; and we will begin seeing the effects of the devastating cuts of the past three years during the next administration.

In other words, the increase in homelessness and other dramatic indicators of the low income housing crisis is not, so far, because of cuts in housing programs. Rather it is the impact of the recession and cutbacks in other programs. We are still to reap the consequences of the housing cuts.

The drop in the incremental number of assisted housing units has been accompanied by an even more serious loss: capacity. Even HUD, dedicated as it is to trying to provide housing assistance within the confines of the existing housing stock, has been forced to recognize that there are gaps and shortages. For example, there are 2.4 million large renter households (5 persons or more) and only 1.0 million large rental units (4 or more bedrooms). Nor are landlords in the private sector willing to rent decent housing to low income, single parent households. Indeed, families with children at any income level face difficulties in renting housing.

FUNDAMENTAL ELEMENTS OF AN ADEQUATE LOW INCOME HOUSING PROGRAM

We urge this committee, as it approaches the needs of families, children, and youth, to give high priority to housing and to participate in the process of developing a set of housing programs which are adequate to meet those needs.

The National Low Income Housing Coalition is now embarked on a process of developing specific proposals for a housing program that will, in fact, provided decent, affordable housing for all. An adequate low income housing program would, we believe, incorporate the following elements:

o An adequately funded entitlement, income-based housing assistance program to enable low income people to obtain decent housing at costs they can afford.

o Production and preservation programs to meet those low income housing needs which cannot be met by income-support programs alone.

o Strengthened fair housing laws and enforcement and a strong reaffirmation of the federal government's role in guaranteeing fair access to housing.

o A strong role for community based, nonprofit organizations in the implementation of housing programs, along with the availability of federal assistance to meet the broad range of housing needs at the neighborhood and community level.

o Retention of the current stock of federally assisted and insured housing now occupied by low and moderate income people for their use and provision of the necessary funds to maintain it in viable condition. (This includes all present public housing, HUD-assisted, HUD-insured and HUD-held units, as well as units assisted by the Farmers Home Administration.)

o No displacement of low income people from their neighborhoods by either public or private action.

o Tax reform to curb massive housing subsidies through the tax system to middle and upper income people, particularly as long as budget constraints inhibit adequate housing aid to low income people. The cost of housing-related tax subsidies has risen from $26 billion in 1980 to an estimated $43 billion in 1984. At the same time, new budget authority for low income housing is set, under the Administration's proposals, to drop from $26 billion in 1980 to $0.5 billion in 1984.

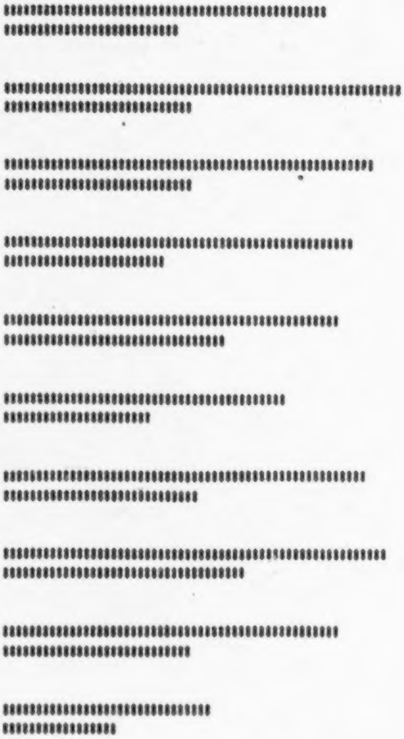
- Monetary and credit policies to provide reasonable financing costs for housing and limit credit-related sharp fluctuations in building which increase the costs, prices, and rents of all housing.

We believe that these elements provide the framework for a viable approach to meeting this nation's housing needs. Clearly, this framework needs to be elaborated, tested against the views and experience of people attempting to meet the housing needs of our low income families and neighborhoods, and cast into specific legislative proposals. This is no small task. But it is one that is urgently needed. Without it, our housing efforts are doomed to inadequacy at best and countless millions of families and children will be deprived of the decent housing which should be their right.

1981 MEDIAN INCOMES BY TENURE AND SELECTED HOUSEHOLD CHARACTERISTICS.

CHART A.

United States Total	Total Households	Median Income
All owners	54,342,000	$21,800
All renters	28,833,000	$11,700
Own Children under 18		
Owners	21,643,000	$26,400
Renters	9,634,000	$12,700
Own Children under 6		
Owners	4,276,000	$24,900
Renters	3,442,000	$12,600
Three or more children		
Owners	2,265,000	$23,500
Renters	1,113,000	$10,600
Units with subfamilies		
Owners	948,000	$22,600
Renters	373,000	$14,700
Units with nonrelatives		
Owners	1,583,000	$19,000
Renters	2,840,000	$9,900
Total two or more person households		
Owners	45,827,000	$24,200
Renters	18,685,000	$13,100
Married couple families, no nonrelatives		
Owners	39,137,000	$25,600
Renters	10,822,000	$16,200
Other male householder		
Owners	2,257,000	$22,300
Renters	2,418,000	$12,400
Other female householder		
Owners	4,433,000	$13,900
Renters	5,444,000	$7,800



Source: Calculated by Low Income Housing Information Service from data in 1981 Annual Housing Survey, Financial Characteristics of the Inventory, table 1.

TABLE 1A, p. 1

HOUSEHOLDS WITH CHILDREN, BY INCOME AND TENURE, U.S., 1981
(Households in thousands)

United States Total	Total	Less than $3,000	$3,000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 to $49,999	$50,000 to $74,999	$75,000 or more	Median (Dollars)
All owners	54,342	1,867	5,375	4,069	6,838	6,650	6,592	10,238	7,672	3,610	1,431	21,800
All renters	28,833	2,284	6,532	3,685	5,711	3,911	2,775	2,499	1,015	297	124	11,700
Total	83,175	4,151	11,907	7,754	12,549	10,561	9,367	12,737	8,687	3,907	1,555	--
Percent Owners	65.3	45.0	45.1	52.5	54.5	63.0	70.4	80.4	88.3	92.4	92.0	--
Percent Renters	34.7	55.0	54.9	47.5	45.5	37.0	29.6	19.6	11.7	7.6	8.0	--
Own Children under 18												
Owners	21,643	538	724	793	2,035	2,719	3,277	5,391	3,891	1,636	640	26,400
Renters	9,634	733	1,793	1,204	2,014	1,420	1,019	961	355	106	28	12,700
Total	31,277	1,271	2,517	1,997	4,049	4,139	4,296	6,352	4,246	1,742	668	--
Percent renters	30.8	57.7	71.2	60.3	49.7	34.3	23.7	15.1	8.4	6.1	4.2	--
Own Children under 6												
Owners	4,276	76	117	138	386	696	736	1,162	643	233	89	24,900
Renters	3,442	280	620	432	747	535	392	330	83	17	6	12,600
Total	7,718	356	737	570	1,133	1,231	1,128	1,492	726	250	95	--
Percent renters	44.6	78.7	84.1	75.8	65.9	43.5	34.8	22.1	11.4	6.8	6.3	--
Three or more children												
Owners	2,265	72	76	102	274	331	400	543	281	135	52	23,500
Renters	1,113	111	268	147	258	130	91	71	25	10	2	10,600
Total	3,378	183	344	249	532	461	491	614	306	145	54	--
Percent renters	32.9	60.7	77.9	59.0	48.5	28.2	18.5	11.6	8.2	6.9	3.7	--
AS PERCENT OF ALL OWNERS/ALL RENTERS/ALL HOUSEHOLDS:												
Own Children under 18												
Owners	39.8	28.8	13.5	19.5	29.8	40.9	49.7	52.7	50.7	45.3	44.7	121.1
Renters	33.4	32.1	27.4	32.7	35.3	36.3	36.7	38.5	35.0	35.7	22.6	108.5
Total	37.6	30.6	21.1	25.8	32.3	39.2	45.9	49.9	48.9	44.6	43.0	--
Own children under 6												
Owners	7.9	4.1	2.2	3.4	5.6	10.5	11.2	11.3	8.4	6.5	6.2	114.2
Renters	11.9	12.3	9.5	11.7	13.1	13.7	14.1	13.2	8.2	5.7	4.8	107.7
Total	9.3	8.6	6.2	7.4	9.0	11.7	12.0	11.7	8.4	6.4	6.1	--
Three or more children												
Owners	4.2	3.9	1.4	2.5	4.0	5.0	6.1	5.3	3.7	3.7	3.6	107.8
Renters	3.9	4.9	4.1	4.0	4.5	3.3	3.3	2.8	2.5	3.4	1.6	90.6
Total	4.1	4.4	2.9	3.2	4.2	4.4	5.2	4.8	3.5	3.7	3.5	--

Source: Calculated by Low Income Housing Information Service from data in 1981 Annual Housing Survey, Financial Characteristics of the Inventory, Table 1.

FAMILY COMPOSITION, BY TENURE, U.S., 1981 (Households in thousands) TABLE 1A, p. 2

United States Total	Total	Less than $3,000	$3,000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 to $49,999	$50,000 to $74,999	$75,000 or more	Median (Dollars)
All owners	54342.0	1867.0	5375.0	4069.0	6838.0	6650.0	6592.0	10238.0	7672.0	3610.0	1431.0	21800.0
All renters	28833.0	2284.0	6532.0	3685.0	5711.0	3911.0	2775.0	2499.0	1015.0	297.0	124.0	11700.0
Total	83175.0	4151.0	11907.0	7754.0	12549.0	10561.0	9367.0	12737.0	8687.0	3907.0	1555.0	--
Total two or more person households												
Owners	45827.0	1190.0	2516.0	2940.0	5500.0	5781.0	5998.0	9661.0	7385.0	3482.0	1374.0	24200.0
Renters	18685.0	1303.0	3305.0	2412.0	3804.0	2750.0	2003.0	1959.0	821.0	234.0	93.0	13100.0
Total	64512.0	2493.0	5821.0	5352.0	9304.0	8531.0	8001.0	11620.0	8206.0	3716.0	1467.0	--
Percent renters	29.0	52.3	56.8	45.1	40.9	32.2	25.0	16.9	10.0	6.3	6.3	--
Married couple families, no nonrelatives												
Owners	39137.0	880.0	1680.0	2187.0	4302.0	4756.0	5230.0	8719.0	6859.0	3251.0	1274.0	25600.0
Renters	10822.0	353.0	1173.0	1182.0	2246.0	1877.0	1497.0	1525.0	686.0	198.0	85.0	16200.0
Total	49959.0	1233.0	2853.0	3369.0	6548.0	6633.0	6727.0	10244.0	7545.0	3449.0	1359.0	--
Percent renters	21.7	28.6	41.1	35.1	34.3	28.3	22.3	14.9	9.1	5.7	6.3	--
Other male householder												
Owners	2257.0	68.0	178.0	143.0	287.0	311.0	315.0	452.0	292.0	132.0	79.0	22300.0
Renters	2418.0	202.0	389.0	375.0	507.0	348.0	262.0	214.0	86.0	27.0	8.0	12400.0
Total	4675.0	270.0	567.0	518.0	794.0	659.0	577.0	666.0	378.0	159.0	87.0	--
Percent renters	51.7	74.8	68.6	72.4	63.9	52.8	45.4	32.1	22.8	17.0	9.2	--
Other female householder												
Owners	4433.0	242.0	658.0	609.0	911.0	715.0	453.0	490.0	235.0	100.0	21.0	13900.0
Renters	5444.0	748.0	1743.0	855.0	1051.0	525.0	244.0	220.0	49.0	9.0	-	7800.0
Total	9877.0	990.0	2401.0	1464.0	1962.0	1240.0	697.0	710.0	284.0	109.0	21.0	--
Percent renters	55.1	75.6	72.6	58.4	53.6	42.3	35.0	31.0	17.3	8.3	0	--
AS PERCENT OF TOTAL OWNERS/RENTERS/HOUSEHOLDS												
Two or more person households												
Owners	84.3	63.7	46.8	72.3	80.4	86.9	91.0	94.4	96.3	96.5	96.0	111.0
Renters	64.8	57.0	50.6	65.5	66.6	70.3	72.2	78.4	80.9	78.8	75.0	112.0
Total	77.6	60.1	48.9	69.0	74.1	80.8	85.4	91.2	94.5	95.1	94.3	--
Married couple families, no nonrelatives												
Owners	72.0	47.1	31.3	53.7	62.9	71.5	79.3	85.2	89.4	90.1	89.0	117.4
Renters	37.5	15.5	18.0	32.1	39.3	48.0	53.9	61.0	67.6	66.7	68.5	138.5
Total	60.1	29.7	24.0	43.4	52.2	62.8	71.8	80.4	86.9	88.3	87.4	--
Other male householder												
Owners	4.2	3.6	3.3	3.5	4.2	4.7	4.8	4.4	3.8	3.7	5.5	102.3
Renters	8.4	8.8	6.0	10.2	8.9	8.9	9.4	8.6	8.5	9.1	6.5	106.0
Total	5.6	6.5	4.8	6.7	6.3	6.2	6.2	5.2	4.4	4.1	5.6	--
Other female householder												
Owners	8.2	13.0	12.2	15.0	13.3	10.8	6.9	4.8	3.1	2.8	1.5	63.8
Renters	18.9	32.7	26.7	23.2	18.4	13.4	8.8	8.8	4.8	3.0	0	66.7
Total	11.9	23.8	20.2	18.9	15.6	11.7	7.4	5.6	3.3	2.8	1.4	--
AS PERCENT OF TWO-OR-MORE PERSON OWNERS/RENTERS/HOUSEHOLDS												
Married couple families, no nonrelatives												
Owners	85.4	73.9	66.8	74.4	78.2	82.3	87.2	90.2	92.9	93.4	92.7	105.8
Renters	57.9	27.1	35.5	49.0	59.0	68.3	74.7	77.8	83.6	84.6	91.4	123.7
Total	77.4	49.5	49.0	62.9	70.4	77.8	84.1	88.2	91.9	92.8	92.6	--
Other male householder												
Owners	4.9	5.7	7.1	4.9	5.2	5.4	5.3	4.7	4.0	3.8	5.7	92.1
Renters	12.9	15.5	11.8	15.5	13.3	12.7	13.1	10.9	10.5	11.5	8.6	94.7
Total	7.2	10.8	9.7	9.7	8.5	7.7	7.2	5.7	4.6	4.3	5.9	--
Other female householder												
Owners	9.7	20.3	26.2	20.7	16.6	12.4	7.6	5.1	3.2	2.9	1.5	57.4
Renters	29.1	57.4	52.7	35.4	27.6	19.1	12.2	11.2	6.0	3.8	0	59.5
Total	15.3	39.7	41.2	27.4	21.1	14.5	8.7	6.1	3.5	2.9	1.4	--

HOUSEHOLDS CONTAINING SUBFAMILIES OR NONRELATIVES, BY INCOME, U.S. TOTAL, 1981 TABLE 1A, p. 3

(Households in thousands)

United States Total	Total	Less than $3,000	$3,000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 to $49,999	$50,000 to $74,999	$75,000 or more	Median (Dollars)
All owners	54342.0	1867.0	5375.0	4069.0	6838.0	6650.0	6592.0	10238.0	7672.0	3610.0	1431.0	21800.0
All renters	20833.0	2284.0	6532.0	3685.0	5711.0	3911.0	2775.0	2499.0	1015.0	297.0	124.0	11700.0
Total	83175.0	4151.0	11907.0	7754.0	12549.0	10561.0	9367.0	12737.0	8687.0	3907.0	1555.0	--
Percent Owners	65.3	45.0	45.1	52.5	54.5	63.0	70.4	80.4	88.3	92.4	92.0	--
Percent Renters	34.7	55.0	54.9	47.5	45.5	37.0	29.6	19.6	11.7	7.6	8.0	--
Units with subfamilies												
Owners	948.0	26.0	48.0	58.0	167.0	115.0	112.0	172.0	146.0	83.0	21.0	22600.0
Renters	373.0	19.0	57.0	41.0	74.0	53.0	55.0	43.0	23.0	5.0	2.0	14700.0
Total	1321.0	45.0	105.0	99.0	241.0	168.0	167.0	215.0	169.0	88.0	23.0	--
Percent renters	28.2	42.2	54.3	41.4	30.7	31.5	32.9	20.0	13.6	5.7	8.7	--
Units with nonrelatives												
Owners	1583.0	91.0	162.0	132.0	219.0	236.0	204.0	279.0	143.0	76.0	40.0	19000.0
Renters	2840.0	374.0	598.0	465.0	624.0	366.0	210.0	144.0	40.0	15.0	5.0	9900.0
Total	4423.0	465.0	760.0	597.0	843.0	602.0	414.0	423.0	183.0	91.0	45.0	--
Percent renters	64.2	80.4	78.7	77.9	74.0	60.8	50.7	34.0	21.9	16.5	11.1	--
PERCENT OF ALL OWNERS/RENTERS/HOUSEHOLDS												
Units with subfamilies												
Owners	1.7	1.4	0.9	1.4	2.4	1.7	1.7	1.7	1.9	2.3	1.5	103.7
Renters	1.3	0.8	0.9	1.1	1.3	1.4	2.0	1.7	2.3	1.7	1.6	125.6
Total	1.6	1.1	0.9	1.3	1.9	1.6	1.8	1.7	1.9	2.3	1.5	--
Units with nonrelatives												
Owners	2.9	4.9	3.0	3.2	3.2	3.5	3.1	2.7	1.9	2.1	2.8	87.2
Renters	9.8	16.4	9.2	12.6	10.9	9.4	7.6	5.8	3.9	5.1	4.0	84.6
Total	5.3	11.2	6.4	7.7	6.7	5.7	4.4	3.3	2.1	2.3	2.9	--

Source: Compiled by Low Income Housing Information Service from data contained in 1981 Annual Housing Survey, Financial Characteristics of the Inventory, Table A-1.

TABLE 18, p. 1

INCOMES OF BLACK RENTERS AND OWNERS, U.S. TOTAL, 1981 (Households in thousands)

United States Total	Total	Less than $3,000	$3,000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 to $49,999	$50,000 to $74,999	$75,000 or more	Median (Dollars)
All owners	3,911	224	686	438	595	536	365	544	374	113	37	15,111
All renters	5,099	665	1,590	735	887	506	342	264	80	21	10	8,200
Total	9,010	889	2,276	1,173	1,482	1,042	707	808	454	134	47	--
Percent Renters	56.6	74.8	69.9	62.7	59.9	48.6	48.4	32.7	17.6	15.7	21.3	--
Total two or more person households												
Owners	3,251	119	408	368	515	477	333	521	365	109	35	17,300
Renters	3,536	397	998	544	641	359	260	237	73	21	6	9,100
Total	6,787	516	1,406	912	1,156	836	593	758	438	130	41	--
Percent renters	52.1	76.9	71.0	59.6	55.4	42.9	43.8	31.3	16.7	16.2	14.6	--
Married couple families, no nonrelatives												
Owners	2,197	45	180	197	305	319	241	449	321	103	35	21,100
Renters	1,359	36	244	179	282	201	167	171	60	15	4	13,900
Total	3,556	81	424	376	587	520	408	620	381	118	39	--
Percent renters	38.2	44.4	57.5	47.6	48.0	38.7	40.9	27.6	15.7	12.7	10.3	--
Other male householder												
Owners	249	4	49	26	38	44	31	26	29	3	-	16,000
Renters	379	39	72	77	75	57	33	19	0	4	2	10,100
Total	628	43	121	103	113	101	64	45	29	7	2	--
Percent renters	60.4	90.7	59.5	74.8	66.4	56.4	51.6	42.2	0	57.1	100.0	--
Other female householder												
Owners	805	70	180	145	172	114	61	46	14	3	-	10,200
Renters	1,797	322	682	287	283	101	60	47	13	2	-	6,400
Total	2,602	392	862	432	455	215	121	93	27	5	0	--
Percent renters	69.1	82.1	79.1	66.4	62.2	47.0	49.6	50.5	48.1	40.0	-	--
AS PERCENT OF ALL OWNERS/RENTERS/HOUSEHOLDS												
Total two or more person households												
Owners	83.1	53.1	59.5	84.0	86.6	89.0	91.2	95.8	97.6	96.5	94.6	114.5
Renters	69.3	59.7	62.8	74.0	72.3	70.9	76.0	89.8	91.3	100.0	60.0	111.0
Total	75.3	58.0	61.8	77.7	78.0	80.2	83.9	93.8	96.5	97.0	87.2	--
Married couple families, no nonrelatives												
Owners	56.2	20.1	26.2	45.0	51.3	59.5	66.0	82.5	85.8	91.2	94.6	139.6
Renters	26.7	5.4	15.3	24.4	31.8	39.7	48.8	64.8	75.0	71.4	40.0	169.5
Total	39.5	9.1	18.6	32.1	39.6	49.9	57.7	76.7	83.9	88.1	83.0	--
Other male householder												
Owners	6.4	1.8	7.1	5.9	6.4	8.2	8.5	4.8	7.8	2.7	0	105.9
Renters	7.4	5.9	4.5	10.5	8.5	11.3	9.6	7.2	0	19.0	20.0	123.2
Total	7.0	4.8	5.3	8.8	7.6	9.7	9.1	5.6	6.4	5.2	4.3	--
Other female householder												
Owners	20.6	31.3	26.2	33.1	28.9	21.3	16.7	8.5	3.7	2.7	0	67.5
Renters	35.2	48.4	42.9	39.0	31.9	20.0	17.5	17.8	16.3	9.5	0	78.0
Total	28.9	44.1	37.9	36.8	30.7	20.6	17.1	11.5	5.9	3.7	0	--

Source: Compiled by Low Income Housing Information Service from data contained in 1981 Annual Housing Survey, Financial Characteristics of the Inventory, Table A-4.

INCOME, TENURE, AND SELECTED CHARACTERISTICS OF BLACK HOUSEHOLDS OF TWO OR MORE PERSONS, U.S., 1981 (Households in thousands)

United States Total	Total	Less than $3,000	$3,000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 to $49,999	$50,000 to $74,999	$75,000 or more	Median (Dollars)
Total two or more person households												
Owners	3,251	119	408	368	515	477	333	521	365	109	35	17,300
Renters	3,536	397	998	544	641	359	260	237	73	21	6	9,100
Total	6,787	516	1,406	912	1,156	836	593	758	438	130	41	--
Percent renters	52.1	76.9	71.0	59.6	55.4	42.9	43.8	31.3	16.7	16.2	14.6	--
Married couple families, no nonrelatives												
Owners	2,197	45	180	197	305	319	241	449	321	103	35	21,100
Renters	1,359	36	244	179	282	201	167	171	60	15	4	13,900
Total	3,556	81	424	376	587	520	408	620	381	118	39	--
Percent renters	38.2	44.4	57.5	47.6	48.0	38.7	40.9	27.6	15.7	12.7	10.3	--
Other male householder												
Owners	249	4	49	26	38	44	31	26	29	3	-	16,000
Renters	379	39	72	77	75	57	33	19	0	4	2	10,100
Total	628	43	121	103	113	101	64	45	29	7	2	--
Percent renters	60.4	90.7	59.5	74.8	66.4	56.4	51.6	42.2	0	57.1	100.0	--
Other female householder												
Owners	805	70	180	145	172	114	61	46	14	3	-	10,200
Renters	1,797	322	682	287	283	101	60	47	13	2	-	6,400
Total	2,602	392	862	432	455	215	121	93	27	5	0	--
Percent renters	69.1	82.1	79.1	66.4	62.2	47.0	49.6	50.5	48.1	40.0	-	--
AS PERCENT OF OWNER/RENTER/TOTAL HOUSEHOLDS OF TWO OR MORE PERSONS												
Married couple families, no nonrelatives												
Owners	67.6	37.8	44.1	53.5	59.2	66.9	72.4	86.2	87.9	94.5	100.0	122.0
Renters	38.4	9.1	24.4	32.9	44.0	56.0	64.2	72.2	82.2	71.4	66.7	152.7
Total	52.4	15.7	30.2	41.2	50.8	62.2	68.8	81.8	87.0	90.8	95.1	--
Other male householder												
Owners	7.7	3.4	12.0	7.1	7.4	9.2	9.3	5.0	7.9	2.8	0	92.5
Renters	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Total	9.3	8.3	8.6	11.3	9.8	12.1	10.8	5.9	6.6	5.4	4.9	--
Other female householder												
Owners	24.8	58.8	44.1	39.4	33.4	23.9	18.3	8.8	3.8	2.8	0	59.0
Renters	50.8	81.1	68.3	52.8	44.1	28.1	23.1	19.8	17.8	9.5	0	70.3
Total	38.3	76.0	61.3	47.4	39.4	25.7	20.4	12.3	6.2	3.8	0	--

Source: Compiled by Low Income Housing Information Service from data contained in 1981 Annual Housing Survey, Financial Characteristics of the Inventory, Table A-4.

BLACK HOUSEHOLDS WITH SUBFAMILIES OR NONRELATIVES, BY INCOME AND TENURE, U.S. TOTAL, 1981
(Households in thousands)

United States Total	Total	Less than $3,000	$3,000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 to $49,999	$50,000 to $74,999	$75,000 or more	Median (Dollars)
All owners	3911.0	224.0	686.0	438.0	595.0	536.0	365.0	544.0	374.0	113.0	37.0	15100.0
All renters	5099.0	665.0	1590.0	735.0	887.0	506.0	342.0	264.0	80.0	21.0	10.0	8200.0
Total	9010.0	889.0	2276.0	1173.0	1482.0	1042.0	707.0	808.0	454.0	134.0	47.0	--
Percent Renters	56.6	74.8	69.9	62.7	59.9	48.6	48.4	32.7	17.6	15.7	21.3	--
Units with subfamilies												
Owners	178.0	11.0	14.0	25.0	35.0	20.0	29.0	25.0	13.0	3.0	2.0	15800.0
Renters	119.0	6.0	30.0	16.0	30.0	17.0	10.0	6.0	2.0	-	2.0	11300.0
Total	297.0	17.0	44.0	41.0	65.0	37.0	39.0	31.0	15.0	3.0	4.0	--
Percent renters	40.1	35.3	68.2	39.0	46.2	45.9	25.6	19.4	13.3	0	50.0	--
Units with nonrelatives												
Owners	166.0	18.0	45.0	14.0	21.0	25.0	21.0	13.0	9.0	1.0	-	11700.0
Renters	401.0	77.0	105.0	91.0	66.0	35.0	14.0	11.0	-	-	2.0	7600.0
Total	567.0	95.0	150.0	105.0	87.0	60.0	35.0	24.0	9.0	1.0	2.0	--
Percent renters	70.7	81.1	70.0	86.7	75.9	58.3	40.0	45.8	0	0	100.0	--
AS PERCENT OF ALL OWNERS/RENTERS/HOUSEHOLDS												
Units with subfamilies												
Owners	4.6	4.9	2.0	5.7	5.9	3.7	7.9	4.6	3.5	2.7	5.4	104.6
Renters	2.3	0.9	1.9	2.2	3.4	3.4	2.9	2.3	2.5	0	20.0	137.8
Total	3.3	1.9	1.9	3.5	4.4	3.6	5.5	3.8	3.3	2.2	8.5	--
Units with nonrelatives												
Owners	4.2	8.0	6.6	3.2	3.5	4.7	5.8	2.4	2.4	0.9	0	77.5
Renters	7.9	11.6	6.6	12.4	7.4	6.9	4.1	4.2	0	0	20.0	92.7
Total	6.3	10.7	6.6	9.0	5.9	5.8	5.0	3.0	2.0	0.7	4.3	--

Source: Compiled by Low Income Housing Information Service from data contained in 1981 Annual Housing Survey, Financial Characteristics of the Inventory, Table A-4.

TABLE 2A

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PROPORTION OF RENTER HOUSEHOLDS ELIGIBLE FOR HOUSING ASSISTANCE, 1980

ALL RENTER HOUSEHOLDS

		Percent	
Single person			
Total	9,784,000	100.0	##
Below 80%	5,947,000	60.8	####################################
Below 50%	3,900,000	39.9	########################
Two persons			
Total	8,005,000	100.0	###
Below 80%	4,499,000	56.2	############################
Below 50%	3,164,000	39.5	###################
Three persons			
Total	4,307,000	100.0	##########################
Below 80%	2,745,000	63.7	#################
Below 50%	1,705,000	39.6	##########
Four persons			
Total	2,952,000	100.0	##################
Below 80%	1,887,000	63.9	############
Below 50%	1,160,000	39.3	#######
Five persons			
Total	1,358,000	100.0	########
Below 80%	961,000	70.8	######
Below 50%	622,000	45.8	####
Six persons			
Total	1,149,000	100.0	#######
Below 80%	793,000	69.0	#####
Below 50%	604,000	52.6	####
All renter households			
Total	27,555,000	100.0	##### ##
Below 80%	16,832,000	61.1	##### #############################
Below 50%	11,155,000	40.5	##### ################

Source: Estimated by Low Income Housing Information Service from data contained in 1980 Annual Housing Survey, Financial Characteristics of the Inventory.

income.pc

TABLE 8

INCOME OF HOUSEHOLDS IN SUBSIDIZED RENTAL HOUSING, COMPARED TO OTHERS, 1981

Selected Characteristics	Total	Under $2500	$2,500 to 4,999	$5,000 to $7,499	$7,500 to $9,999	$10,000 to 12,499	$12,500 to 14,999	$15,000 to 19,999	$20,000 and over	Median (dollars)	Below pov level	Povert Rate	Below 125 Poverty
All households	83,527	2,449	6,308	6,512	5,960	6,443	5,615	10,235	40,005	19,074	11,676	14.0	16,538
Renter households	25,761	1,154	3,105	2,875	2,502	2,599	2,162	3,714	7,650	13,245	--	--	--
Adjusted renter hh	27,210	1,219	3,280	3,037	2,643	2,745	-2,284	3,923	8,080	13,087	6,371	23.4	8,554
In assisted housing	2,873	256	926	603	397	231	165	161	134	6,055	1,510	52.6	1,931
% of all hh	3.4	10.5	14.7	9.3	6.7	3.6	2.9	1.6	0.3	31.7	12.9	375.7	11.7
% of renter hh	10.6	21.0	28.2	19.9	15.0	8.4	7.2	4.1	1.7	46.5	23.7	224.8	22.6
Type of residence													
Inside central cities													
Total households	24,668	891	2,358	2,350	1,935	2,077	1,647	3,012	10,417	16,635	4,211	17.1	5,902
In subsidized hsg	1,473	166	474	317	202	108	62	81	64	5,764	841	57.1	1,044
% in subsidized hsg	6.0	18.6	20.3	13.5	10.4	5.2	3.8	2.7	0.6	34.6	20.0	333.9	17.7
Metro, outside central cities													
Total households	32,232	599	1,494	1,867	1,857	1,943	1,949	3,638	18,886	23,554	2,911	9.0	4,324
In assisted housing	684	44	200	149	91	60	54	42	44	6,656	299	43.6	416
% in assisted housi	2.1	7.3	13.4	8.0	4.9	3.1	2.8	1.2	0.2	28.3	10.3	484.4	9.6
Outside SMSA's													
Total households	26,627	958	2,476	2,294	2,168	2,424	2,020	3,585	10,702	16,259	4,554	17.1	6,312
In assisted housing	716	46	253	137	105	63	49	38	26	6,071	371	51.8	471
% in assisted housi	2.7	4.8	10.2	6.0	4.8	2.6	2.4	1.1	0.2	37.3	8.1	302.9	7.5
Black households													
Total	8,961	612	1,444	1,139	838	853	617	1,019	2,438	11,309	2,974	33.2	3,727
In assisted housing	1,070	147	301	200	160	82	64	55	60	6,081	659	61.6	781
% in assisted housing	11.9	24.0	20.8	17.6	19.1	9.6	10.4	5.4	2.5	53.8	22.2	185.5	21.0
Married-couple families													
Total	49,630	592	892	1,885	2,453	3,105	3,000	6,195	31,506	25,106	3,394	6.8	5,274
In assisted housing	634	15	50	77	147	81	83	99	81	10,838	195	30.7	272
% in assisted housing	1.3	2.5	5.6	4.1	6.0	2.6	2.8	1.6	0.3	43.2	5.7	451.5	5.2
Female householder, no husband													
Total households	9,403	599	1,236	1,272	1,019	999	806	1,190	2,283	11,441	3,252	34.6	3,985
Renter households	4,645	402	931	758	565	503	360	484	643	8,526	2,283	49.2	2,649
In assisted housing	1,044	148	278	232	145	102	59	46	34	6,033	706	67.6	811
% of all hh	11.1	24.7	22.5	18.2	14.2	10.2	7.3	3.9	1.5	52.7	21.7	195.4	20.4
% of renter hh	22.5	36.8	29.9	30.6	25.7	20.3	16.4	9.5	5.3	70.8	30.9	137.4	30.6
Single-person households													
Total households	22,508	1,216	4,117	3,245	2,343	2,160	1,658	2,577	5,192	10,385	4,826	21.4	6,970
In assisted housing	1,149	87	588	287	97	46	19	12	13	4,573	589	51.2	828
% in assisted hsg	5.1	7.2	14.3	8.8	4.1	2.1	1.1	0.5	0.3	44.0	12.2	239.3	11.9
Elderly householders													
Total 65 or older	17,312	430	3,174	2,944	2,193	1,810	1,396	1,899	3,466	9,903	3,185	18.4	5,175
In assisted housing	949	30	471	289	98	39	10	7	6	4,663	433	45.6	648
% in assisted housing	5.5	7.0	14.8	9.8	4.5	2.2	0.7	0.4	0.2	49.1	13.6	247.8	12.5
With children under 18													
Total households	32,886	852	1,459	1,674	1,781	2,156	2,039	3,971	18,954	22,680	5,247	16.0	6,978
In assisted housing	1,397	151	294	253	223	146	128	116	86	7,512	840	60.1	991
% in assisted hsg	4.2	17.7	20.2	15.1	12.5	6.8	6.3	2.9	0.5	33.1	16.0	375.6	14.2
With children under 6													
Total households	15,172	470	810	896	954	1,124	1,101	2,019	7,799	20,432	2,997	19.8	3,927
In assisted housing	774	86	176	123	123	86	82	59	39	7,524	496	64.1	571
% in assisted hsg	5.1	18.3	21.7	13.7	12.9	7.7	7.4	2.9	0.5	36.8	16.5	323.7	14.5
No children under 18													
Total households	50.641	1,596	4,850	4,838	4,178	4,287	3,576	6,264	21,051	16,439	6,430	12.7	9,560
In assisted housing	1,476	105	632	350	174	85	37	45	48	5,004	670	45.4	940
% in assisted hsg	2.9	6.6	13.0	7.2	4.2	2.0	1.0	0.7	0.2	30.4	10.4	357.5	9.8

TABLE 28

PROPORTION OF BLACK RENTER HOUSEHOLDS ELIGIBLE FOR HOUSING ASSISTANCE, 1980
(Households in thousands)

BLACK RENTERS

Single person			
Total	1,429	100.0	###
Below 80%	990	69.3	##
Below 50%	726	50.8	####################################
Two persons			
Total	1,213	100.0	##
Below 80%	884	72.9	##
Below 50%	657	54.2	#################################
Three persons			
Total	838	100.0	###
Below 80%	628	74.9	###############################
Below 50%	453	54.3	#######################
Four persons			
Total	611	100.0	###############################
Below 80%	482	78.9	########################
Below 50%	369	60.4	##################
Five persons			
Total	343	100.0	#################
Below 80%	291	84.8	##############
Below 50%	230	67.1	############
Six persons			
Total	393	100.0	####################
Below 80%	277	70.5	##############
Below 50%	228	58.0	############
All black renter households			
Total	4,827	100.0	##### '##
Below 80%	3,550	73.5	##### '###
Below 50%	2,664	55.2	##### .##############################

Source: Estimated by Low Income Housing Information Service from data contained in 1980 Annual Housing Survey, Financial Characteristics of the Inventory.

```
PROPORTION OF HISPANIC RENTER HOUSEHOLDS ELIGIBLE FOR HOUSING ASSISTANCE, 1980
                          (Households in thousands)


HISPANIC HOUSEHOLDS


Single person
  Total                      414    100.0  #######################################
  Below 80%                  301     72.7  #################################
  Below 50%                  158           ##################


Two persons
  Total                      541    100.0  #######################################
  Below 80%                  370     68.4  #######################################
  Below 50%                  244     45.1  ###########################


Three persons
  Total                      486    100.0  #######################################
  Below 80%                  371     76.3  #######################################
  Below 50%                  246     50.6  ###########################


Four persons
  Total                      410    100.0  ######################################
  Below 80%                  217     52.9  ########################
  Below 50%                  190     46.3  #####################


Five persons
  Total                      219    100.0  ########################
  Below 80%                  181     82.6  ####################
  Below 50%                  122     55.7  ##############


Six persons
  Total                      279    100.0  ###############################
  Below 80%                  223     79.9  #########################
  Below 50%                  166     59.5  ##################


All Hispanic renter households
  Total                    2,349    100.0  #####  #############################
  Below 80%                1,664     70.8  #####  #############################
  Below 50%                1,126     47.9  #####  ######################

Source:  Estimated by Low Income Housing Information Service from data containe
         Survey, Financial Characteristics of the Inventory.
```

PROPORTION OF WHITE RENTER HOUSEHOLDS ELIGIBLE FOR HOUSING ASSISTANCE, 1980
(Households in thousands)

```
WHITE HOUSEHOLDS


Single person
  Total                 7,941   100.0 $$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$
  Below 80%             4,656    58.6 $$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$
  Below 50%             3,016    38.0 $$$$$$$$$$$$$$$$$$$$$$$


Two persons
  Total                 6,251   100.0 $$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$
  Below 80%             3,245    51.9 $$$$$$$$$$$$$$$$$$$$$$$$$
  Below 50%             2,264    36.2 $$$$$$$$$$$$$$$$$


Three persons
  Total                 2,983   100.0 $$$$$$$$$$$$$$$$$$$$$$$
  Below 80%             1,746    58.5 $$$$$$$$$$$$$
  Below 50%             1,004    33.7 $$$$$$$$


Four persons
  Total                 1,931   100.0 $$$$$$$$$$$$$$$
  Below 80%             1,189    61.6 $$$$$$$$$
  Below 50%               601    31.1 $$$$$


Five persons
  Total                   796   100.0 $$$$$$
  Below 80%               488    61.3 $$$$
  Below 50%               270    33.9 $$


Six persons
  Total                   477   100.0 $$$$
  Below 80%               294    61.6 $$
  Below 50%               210    44.0 $$


All white renter households
  Total                20,379   100.0 $$$$$  $$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$
  Below 80%            11,618    57.0 $$$$$  $$$$$$$$$$$$$$$$$$$$$$$$$$$
  Below 50%             7,365    36.1 $$$$$  $$$$$$$$$$$$$$$
```

Source: Estimated by Low Income Housing Information Service from data contained in 1980 Annual Housing Survey, Financial Characteristics of the Inventory.

CHART C

RENT-INCOME RATIOS, BY INCOME, U.S., 1980.

```
Income under $3000
  Under 25%            135000  *
  25-34%               210000  **
  35-49%               231000  **
  Over 50%            2172000  **********************

Income $3000-6999
  Under 25%           1086000  ***********
  25-34%               956000  **********
  35-49%              1541000  ****************
  Over 50%            2895000  ******************************

Income $7000-9999
  Under 25%           1008000  **********
  25-34%              1248000  *************
  35-49%              1146000  ************
  Over 50%             457000  *****

Income $10000-14999
  Under 25%           2742000  ****************************
  25-34%              1894000  *******************
  35-49%               738000  ********
  Over 50%             180000  **

Income $15000-19999
  Under 25%           2829000  *****************************
  25-34%               691000  *******
  35-49%               131000  *
  Over 50%              20000

Income $20000 or more
  Under 25%           4889000  *****************************************
  25-34%               316000  ***
  35-49%                30000
  Over 50%               6000
```

Source: Compiled by Low Income Housing Information Service from 1980 An
Survey Data.

TABLE 3

RENT-INCOME RATIOS, BY INCOME, 1980 (Households in thousands).

United States Total	Total	Less than $3,000	$3000 to $4,999	$5000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 or more	Median (Dollars)
Rent-income ratios											
Less than 10 percent	1,341	6	--	28	54	99	174	194	281	466	28,600
10 to 14 percent	3,087	23	--	112	116	388	576	613	847	332	22,400
15 to 19 percent	4,375	37	--	347	335	923	1,115	809	587	127	17,300
20 to 24 percent	4,159	69	--	599	504	1,331	964	418	161	52	13,400
25 to 34 percent	5,353	210	--	956	1,248	1,894	691	204	97	15	10,700
35 to 49 percent	3,812	231	--	1,541	1,146	738	131	18	11	1	7,400
50 to 59 percent	1,351	128	--	861	267	99	5	4	0	0	5,600
60 percent or more	4,078	2,043	--	2,034	190	81	15	2	2	0	3,600
Total	27,556	2,748		6,478	3,860	5,553	3,671	2,263	1,986	993	10,600 10,600
Subtotal, under 25 percent	12,961	135		1,086	1,009	2,742	2,829	2,035	1,877	977	--
Subtotal, over 34 percent	9,242	2,403		4,436	1,603	918	151	24	13	1	--
Subtotal, over 50 percent	5,429	2,172		2,895	457	180	20	6	2	0	--
Percent distribution											
Rent-income ratios											
Less than 10 percent	4.87	0.23		0.44	1.39	1.78	4.73	8.59	14.16	46.98	--
10 to 14 percent	11.20	0.83		1.73	3.01	6.99	15.70	27.08	42.65	33.40	--
15 to 19 percent	15.88	1.34		5.35	8.67	16.62	30.38	35.76	29.55	12.83	--
20 to 24 percent	15.09	2.50		9.25	13.05	23.97	26.26	18.49	8.12	5.20	--
25 to 34 percent	19.43	7.64		14.75	32.34	34.10	18.81	9.01	4.88	1.48	--
35 to 49 percent	13.83	8.42		23.78	29.69	13.29	3.58	0.79	0.53	0.11	--
50 to 59 percent	4.90	4.67		13.29	6.91	1.78	0.14	0.19	0	0	--
60 percent or more	14.80	74.36		31.40	4.93	1.45	0.40	0.09	0.11	0	--
Total	100.00										--
Subtotal, under 25 percent	47.04	4.91		16.77	26.12	49.37	77.06	89.92	94.48	98.41	--
Subtotal, over 34 percent	33.54	87.46		68.48	41.54	16.53	4.13	1.07	0.64	0.11	--
Subtotal, over 50 percent	19.70	79.04		44.69	11.85	3.24	0.55	0.28	0.11	0	--

Source: Estimated by Low Income Housing Information Service from data in 1980 annual Housing Survey, Financial Characteristics of the Inventory. (LIHIS file is rentgap.pc)

CHART D.

1980 Renter Households and Units in Affordable Rent Range

Note: This chart compares the number of renter households, by income, in 1980 with the number of rental units in the housing stock (regardless of location, quality or availability) in a rent range that represents 25% of income.

Income/Rent Range	Households or Units	
Income under $3000	2,748,000	**************
Units under $63	1,252,000	******
Income $3000-4999	3,569,000	************* ***
Units: rent $63-104	1,451,000	*******
Income $5000-6 9	2,882,000	**************
Units: rent $105-146	2,351,000	************
Income $7000-9999	3,862,000	*******************
Units: rent 147-208	5,526,000	****************************
Income $10000-14999	5,553,000	*****************************
Units: rent 209-313	10,067,000	*********************** *****************************
Income $15000-20000	3,672,000	************ *****
Units: rent 314-417	4,464,000	***********************

Source: Low Income Housing Information Service (based on 1980 Annual Housing Survey Data)

TABLE 4

SELECTED CHARACTERISTICS OF RENTER HOUSEHOLDS, BY INCOME, 1980
(Households in thousands)

United States Total	Total	Less than $3,000	$3000 to $4,999	$5000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 or more	Median (Dollars)
Renter-occupied units	27,556	2,748	3,598	2,882	3,862	5,553	3,672	2,263	1,984	994	10,600
Black renters	4,827	780	854	629	697	841	477	264	203	74	7,600
Hispanic renters	2,349	232	306	310	422	519	264	156	101	39	9,300
Percent black	18	29	24	22	18	15	13	12	10	15	--
Percent Hispanic	9	8	9	11	11	9	7	7	5	13	--
In metropolitan areas	20,964	1,895	2,634	2,116	2,870	4,254	2,886	1,814	1,641	853	11,100
Outside central cities	8,936	625	844	750	1,142	1,893	1,410	932	901	439	12,900
In central cities	12,027	1,269	1,791	1,366	1,728	2,361	1,476	882	740	414	9,800
Outside metro areas	6,592	853	963	765	993	1,299	786	448	343	141	9,200
Central city Plus nonmetr	18,619	2,122	2,754	2,131	2,721	3,660	2,262	1,330	1,083	555	--

Source: Estimated by Low Income Housing Information Service from data in 1980 annual Housing Survey, Financial Characteristics of the Inventory. (LIHIS file is rentgap.pc)

RENTER HOUSEHOLDS COMPARED WITH AFFORDABLE UNITS IN INVENTORY, BY INCOME, 1980
Households/Units in thousands

United States Total	Total	Less than $3,000	$3000 to $4,999	$5000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 or more	Median (Dollars)
25% of top of range	--	63	104	146	208	313	417	521	729	2,605	--
30% of top of range	--	75	125	175	250	375	500	625	875	3,125	--
Estimated units at 25%	27,584	1,252	1,451	2,351	5,526	10,067	4,464	1,479	788	206	--
Gap or surplus (u-hh)	28	(1,496)	(2,147)	(531)	1,664	4,514	792	(784)	(1,196)	(788)	--
Cumulative gap/surplus	28	(1,496)	(3,643)	(4,174)	(2,510)	2,003	2,796	2,012	816	27	--
Estimated units at 30%	27,491	1,446	2,174	3,533	7,587	9,070	2,529	745	408	--	--
Gap or surplus (u-hh)	(66)	(1,302)	(1,424)	651	3,725	3,517	(1,143)	(1,519)	(2,571)	--	--
Cumulative gap/surplus	65	(1,302)	(2,726)	(2,075)	1,650	5,167	4,024	2,505	(65)	--	--

Source: Estimated by Low Income Housing Information Service from data in 1980 annual Housing Survey, Financial Characteristics of the Inventory. (LIHIS file is rentgap.pc)

CHART E.

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Chart E.  Significant changes, 1970-1980, in housing affordability for renters
          (Numbers in thousands)
1970
  HH under $3000          5769  ***********************************
  Units under $75         8208  **************************************************
1980
  HH under $3000          2748  *****************
  Units under $75         2458  ***************

1970
  HH $3000-4999           3565  **********************
  Units: $75-124          6700  *****************************************
1980
  HH $3000-4999           3598  **********************
  Units: $75-124          2987  ******************

1970
  HH $5000-6999           3661  **********************
  Units $125-174          3967  ************************
1980
  HH $5000-6999           2882  ******************
  Units $125-$174         4575  ****************************


                                CUMULATIVE
1970
  HH under $5000          9334  *****************
  Units under $125       14908  ***************************
1980
  HH under $5000          6346  ************
  Units under $125        5445  **********

1970
  HH under $7000         12995  ************************
  Units under $175       18875  **********************************
1980
  HH under $7000          9228  *****************
  Units under $175       10020  ******************

1970
  Total renter HH        23560  *******************************************
    White                19601  ************************************
    Black                 3607  *******
  Married couples        17171  *******************************
  Other male HHr          1143  **
  Other female HHr        3270  ******
  Single persons          6389  ************
1980
  Total renter HH        27556  **************************************************
    White                21894  ****************************************
    Black                 4827  *********
  Married couples        17772  ********************************
  Other male HHr          2238  ****
  Other female HHr        5716  **********
  Single persons          9784  ******************
```

Source: Low Income Housing Information Service (based on data from 1980 Annual

TABLE 5.

Table 5. Significant changes in the housing inventory, 1970-80

	1980	1970	1970-80 Change Number	1970-80 Change Percent
All housing units	88207	68672	19535	28.4
Vacant/seasonal	2183	973	1210	124.4
Year-round units	86204	67699	18505	27.3
Owner-occupied	52516	39886	12630	31.7
White	48028	37005	11023	29.8
Black	3776	2568	1208	47.0
Renter-occupied	27556	23560	3996	17.0
White	21894	19601	2293	11.7
Black	4827	3607	1220	33.8
Vacant	5953	4254	1699	39.9
Lacking plumbing	2359	4398	-2039	-46.4
Owner-occupied	765	1662	-897	-54.0
Renter-occupied	988	1849	-861	-46.6
Median no of rooms	5.1	5.0	0.1	2.0
Owner-occupied	5.8	5.6	0.2	3.6
Renter-occupied	4.0	4.0	0	0
Median no of persons				
Owner-occupied	2.6	3.0	-0.4	-13.3
Renter-occupied	2.0	2.3	-0.3	-13.0
Married couples, no nonrelatives	55281	47977	7304	15.2
Owner-occupied	37509	30806	6703	21.8
Renter-occupied	17772	17171	601	3.5
Other male householder	4264	2441	1823	74.7
Owner-occupied	2026	1298	728	56.1
Renter-occupied	2238	1143	1095	95.8
Other female householder	10743	6289	4454	70.8
Owner-occupied	5027	3019	2008	66.5
Renter-occupied	5716	3270	2446	74.8
1-person households	17738	11151	6587	59.1
Owner-occupied	7954	4762	3192	67.0
Renter-occupied	9784	6389	3395	53.1
Median Income				
Owners	19800	9700	10100	104.1
Renters	10500	6300	4200	66.7
Median value, owner-occupied	51300	17100	34200	200.0
Median rent, renter-occupied	241	108	133	123.1
Renter income				
Under $3000	2748	5769	-3021	-52.4
$3000-4999	3598	3565	33	0.9
$5000-5999	1445	1847	-402	-21.8
$6000-6999	1437	1814	-377	-20.8
$7000-9999	3863	4620	-757	-16.4
Rental units				
Under $80	2622	8755	-6133	-70.1
$80-99	1114	3332	-2218	-66.6
$100-149	3676	5641	-1965	-34.8
$150-199	5103	2293	2810	122.5
$200-299	8307	806	7501	930.6

Source: Low Income Housing Information Service (based on data in Annual Housing Survey: 1980, Part A, General Housing Characteristics.

TABLE 6.

Table 6. Total households, renter households, and households in subsidized housing

Housing Characteristic	All households			Renter households			Renter households in Subsidized housing		
	Total	Below poverty level		Total	Below poverty level		Total	Below poverty level	
		Number	%		Number	%		Number	%
All households	83527	11676	14.0	27210	6371	23.4	2873	1510	52.6
Female householder, no husband present	9403	3252	34.6	4645	2283	49.1	1044	706	67.6
Householder 65 or over	17312	3185	18.4	4076	1183	29.0	949	433	45.6
NONCASH BENEFITS									
Food stamps	7115	5600	78.7	4639	3816	82.3	171	119	69.6
School lunches	5356	3334	62.2	3053	2181	71.4	141	35	24.8
Medicaid coverage	8487	5561	65.5	4483	3569	79.6	261	120	46.0
Food stamps/school lunch/sub hsg	--	--	--	--	--	--	113	83	73.5
Food stamps/Medicaid/sub hsg	--	--	--	--	--	--	490	430	87.8
School lunch/Medicaid/sub hsg	--	--	--	--	--	--	53	30	56.6
All four	--	--	--	--	--	--	471	397	84.3
Total, hsg + food stamps							1245	1029	82.7

Source: Characteristics of Households and Persons Receiving Selected Noncash Benefits, 1981.

TABLE 7.

Table 7. Selected characteristics of households in subsidized housing, 1981 (numbers in thousands)

Characteristic	Total		Median	Below 100% of poverty			Below 125% of poverty	
	Number	Percent	Income	Number	Rate	Percent	Number	Rate
All households	2873	100.0	6055	1510	52.6	100.0	1931	67.2
White	1710	59.5	5959	804	47.0	53.2	1090	63.7
Black	1070	37.2	6081	659	61.6	43.6	781	73.0
Hispanic	229	8.0	6821	145	63.3	9.6	169	73.8
Family households	1724	60.0	7826	921	53.4	61.0	1103	64.0
Married-couple families	634	22.1	10838	195	30.8	12.9	272	42.9
Female householder, no husband present	1044	36.3	6033	706	67.6	46.8	811	77.7
Male householder, no wife present	46	1.6	—	21	45.7	1.4	21	45.7
Nonfamily households	1149	40.0	4573	589	51.3	39.0	828	72.1
Male householder	244	8.5	4869	113	46.3	7.5	160	65.6
Female householder	905	31.5	4511	476	52.6	31.5	667	73.7
Households with children under 18 years old	1397	48.6	7512	840	60.1	55.6	991	70.9
With children under 6	774	26.9	7524	496	64.1	32.8	571	73.8
Householder 65 or over	949	33.0	4863	433	45.6	28.7	648	68.3
Size of household								
Single person	1104	38.4	4530	564	51.1	37.4	796	72.1
2 persons.	575	20.0	7056	246	42.8	16.3	301	52.3
3 persons	455	15.8	6624	251	55.2	16.6	304	66.8
4 persons	370	12.9	8668	204	55.1	13.5	253	68.4
5 persons	196	6.8	9381	125	63.8	8.3	139	70.9
6 persons	93	3.2	9621	56	60.2	3.7	68	73.1
7 persons or more	81	2.8	10565	64	79.0	4.2	70	86.4
Residence								
Inside metro areas	2157	75.1	6050	1139	52.8	75.4	1460	67.7
In central cities	1473	51.3	5764	841	57.1	55.7	1044	70.9
Outside central citie	684	23.8	6656	299	43.7	19.8	416	60.8
Outside metro areas	716	24.9	6071	371	51.8	24.6	471	65.8
Worked at fulltime jobs	804	28.0	10715	255	31.8	16.9	352	18.2
Worked at parttime jobs	315	11.0	6789	155	49.2	10.3	196	62.2
Did not work	1695	59.0	4568	1097	64.7	72.6	1371	80.9

CHART F.

RESERVATIONS, STARTS, AND OCCUPANCIES (COMPLETIONS) UNDER THE SECTION 8 AND PUBLIC HOUSING PROGRAMS (NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION) 1975-84

```
1975
  Reservations    76122 ****************
  Starts          24532 *****
  Occupancies     47674 **********

1976
  Reservations   199227 ******************************************
  Starts          55222 ************
  Occupancies     93371 ********************

1977
  Reservations   226832 ************************************************
  Starts         118386 *************************
  Occupancies     31193 *******

1978
  Reservations   190554 *****************************************
  Starts         170231 ************************************
  Occupancies     86275 ******************

1979
  Reservations   234700 **************************************************
  Starts         175119 *************************************************
  Occupancies    144874 ****************************************

1980
  Reservations   141758 ***************************************
  Starts         173249 ************************************************
  Occupancies    150394 ******************************************

1981
  Reservations   122674 **********************************
  Starts         106035 *****************************
  Occupancies    180057 **************************************************

1982
  Reservations    45908 ****************
  Starts         112931 ****************************************
  Occupancies    138714 *************************************************

1983 HUD Estimate
  Reservations    16600 ******
  Starts          72000 **************************
  Occupancies    141000 **************************************************

1984 HUD Estimate
  Reservations    10000 ****
  Starts          45000 ************ *****
  Occupancies    124963 **************************************************
```

Source: Low Income Housing Information Service (based on information in HUD Budget Summaries.

Mrs. SCHROEDER. Dr. George Sternlieb?

STATEMENT OF GEORGE STERNLIEB, DIRECTOR, CENTER FOR URBAN POLICY RESEARCH, RUTGERS UNIVERSITY

Mr. STERNLIEB. Let me make my comments as brief as possible. The first two speakers are much more intimately linked in terms of their product and the ultimate disposition of their product than either of them are perhaps aware.

The basic way we house poor people and moderate-income people in the United States is precisely the same way we provide them with automobiles, and that is by a filtering-down process which has been enormously successful, using any criteria that we can count, whether it is plumbing or persons per room, or what-have-you, we have had up to the present date—let me say again, up to the present time—an enormous increase in the quality of housing for just about all Americans.

That does not mean you don't have horror cases; it is a big country, but, as best we can measure, housing standards have gone up not just because of directly subsidized housing for the poor, but rather because we have generated so much in the way of housing: 20 million net new additions to the stock from 1970 to 1980. We basically flooded the market.

OK. Within that concept, let me just turn first to the future demand for housing, a little bit about the supply and the bridge mechanisms.

First, the future demand, in very large part, housing creates its own demand.

We have very good data on that point.

We have had an unbundling of households, of splitting up of households, a decline which may not sound like a lot, but is enormous, in terms of the scale of households from 1970's, 3⅐ persons per household, to a 1980 figure of something under 2.8.

It may not sound like a heck of a lot, but that represents 10 million additional housing units that were absorbed in that decade.

In other words, half of the total housing stock that we generated in a 10-year period went just to house people as a function of this reduction.

The reason that we had this reduction is very simple, housing was cheap. And in the tail end of the decade, compelled by inflation, it was very cheap. We thus absorbed a lot of housing.

In most housing estimates of demand we use household formation as a bad given invariable. We know what the population age pattern is and that generates household formation. But in reality, housing demand is generated by the reality of housing availablity. This factor makes the size of the household. If you don't have housing, take a look at Eastern Europe; you don't have household formation. That process is beginning to take place in the United States.

In the midseventies, the official census forecast for household formation in the eighties was on the order of about 16 to 18 million households. But if you use the household formation rate that has taken place in the last couple of years, the headship count, given the number of people, age, sex, is down to about 13 million.

When you don't have housing buying power, the old live with the young. You will have more unhappy marriages; you will have fewer divorces. That may be a good or bad thing. In essence, the system has worked very roughly, sometimes crudely, to the present.

It probably is not going to work in the future, and here, I would have to agree with our first speaker, we have homogenized the Nation's financial markets, we did this under Mr. Carter, mind you, I don't think anybody in this country comprehends the full impact of this.

We have had a little bubble of housing right now, when people think of 13 percent mortgage interest rate as being spectacular, after they had gotten hit by 16 and 17 percent.

That fix is coming off.

Interestingly enough, the United States—and let me take issue with my colleague, Cushing—has now less in the way of housing subsidy for new homebuyers than most Western European countries and Japan and Australia.

In a comparison, that was undertaken for the Rutgers Center for Urban Policy Research, we published an analysis of 19 different countries. I think we ranked in the lower half now in subsidies for home buyers. The rest of the world has discovered them; we are beginning to forget it.

The bridge mechanisms between housing demand and housing supply are far from distinct. One very basic political reality is that in the United States, we have been able to have a divorce between housing as shelter and its role in a postshelter society.

Most of us are members of a postshelter society. We are much less worried about whether the house can keep out the cold or the rain, or whether there is enough accommodation, than we are as to whether the neighbors are nice, the schools are good, and most importantly of all, when I buy that house and pay down the mortgage, can I make some money when I sell it?

The first question asked by all Americans when they go to buy a house, is not "Is this a delightful place?" Is it a machine for living? It is, "When I want to get out of here, can I get out of here?" "Can I get out of here whole in terms of my housing buying power?"

This makes for a basic conflict which accounts for the failure of section 8, which accounts for practically all of the fiascos of efforts of mixing the middle class and the poor. You are sometimes more successful in mixing actually the secure rich and the poor.

The middle class may love the poor, but they value their housing values more. Within that context, the subsidies given the middle class to buy housing are stimuli to provide the only kind of housing that we have money to provide. That is new housing coming in at the top, ultimately aging and displacing other housing, which ultimately is occupied by poor folks.

Anything to the contrary in terms of massive housing subsidy programs for the poor requires too much money and has too little political backing to be anything other than romance.

You may or may not like that track record, but it is a fact of life.

The largest single direct subsidy mechanism for the poor has not been looked at by Congress for a generation. It is about the only thing I know of in the area other than public housing. It is not directly subsidized housing, but rather housing which is supported by welfare payments, a fair proportion of which comes out of your budget.

You do not know what you are paying for. You do not know whether it could be optimized. There has been no investigation of welfare payment. Just to give you a little feeling for that, in New York City, where I did a book on the subject 8 or 10 years ago, the level of subsidy payments for welfare housing was in excess of $600 million a year. That was 10 years ago.

Just multiply that a bit to bring it to the present day.

Within this context of bridge mechanisms—and again, within the context of the supply side being divided between shelter users—people who desperately need housing in the classic sense of housing; versus nonshelter, the real victims have been, at least in part, those people who were the very beneficiaries of federally subsidized and/or endorsed housing programs.

This occurred in a great many cases because homeownership for the upwardly mobile, trying to struggle toward a better life, was provided in the central city.

If they had been able to get into suburbia that housing would be the Super Christmas Club, splendid investment. Instead, let me cite a study of five neighborhoods, including Hough, where the riots were, we are doing in Cleveland right now. You go to those neighborhoods and in one block, you will have three houses standing, another block you will have four houses standing, and yet a third block—I am not exaggerating this at all—all you have standing are the weeds.

The people who did the American thing, and bought their house, got screwed. Because again the issue is not shelter for most Americans, it is the issue of housing as a form of forced savings, housing as a vehicle for capital accumulation.

And here our track record is dreadful.

In Newark, we have just completed a study which replicates a study which we did 20 years ago. For the purposes of that first study, I took 568 buildings and went out to find out who owned them. Many of them were black homebuyers. The Korean war was over, and they bought houses on the GI Bill and the like.

Of the 568 units, there are now something under 200 left. Nearly 100 of the 200 are owned by the city.

I can cite you chapter and verse on people who did the American thing, paid down their mortgages, and ultimately were destroyed by the neighborhood and by the failure of the fiasco, if you will, of outmigration and the environment.

The situation thus in housing, when we look at it from the family perspective is complicated by the shelter, post-shelter division, and complicated even more so by migration elements and changes in our economic/demographic geography.

Our efforts to save areas generally have been at the cost of the people involved.

In terms of the rental housing situation—the reason that you have poor folks in rental housing is that people of moderate income, and particularly the middle-income people, could not afford rental housing. The opportunity cost of rental housing has been so high, the penalty of foregoing the inflationary windfall of homeownership so severe, as to cause us a cream-skimming that has continuously drained off up to now the more upwardly mobile of the renters.

That may or may not abort currently. But within that context, let me suggest to you that in this imperfect world, the way we generate rental housing is in part through the unsuccessful condominium, through in part the unsuccessful one-family tract development. Remember, 40 percent of all our rental units are one-family houses. That proportion is increasing.

If you want to generate housing, realistically, if you want as many units as possible, for your buck, the very harsh reality is that you will get them more efficiency by subsidizing the affluent than you will by subsidizing the poor. At least the affluent have votes.

Thank you.

Mr. COATS. Thank you, all three of you, and particularly Dr. Sternlieb for your very candid assessment of the situation. Taking the long-term view, what do you think this Congress should or shouldn't do to give us the best supply of adequate housing for the greatest number of people?

What policy, or policies, would you advocate that we take here to accomplish that?

Mr. SCULLY. Probably the two areas that I would concentrate in is, as every speaker has mentioned, somehow or another deficits have got to go.

You can't have the Government borrowing the kind of money they are borrowing and expect any recovery in the housing business.

You have very short-term relief, currently interest rates are back up again. You hear it all the time, but you have got to do something about the deficits.

The other thing that would be most helpful for housing, I think, is find a way to encourage people to save money through some tax incentive to increase the stockpile of savings deposits.

In this country, we tax savings deposits at the highest rate of any country in the Western World, and we should find a way to encourage people, especially potential new homebuyers, to find a way to save money and possible forego taxes on them to give them some credit for doing that.

Mr. COATS. Do you share Dr. Sternlieb's view the best way in the overall picture to provide housing for the low-income is essentially through a tax incentive and a number of other policies?

Mr. SCULLY. I think probably the greatest way to help low-income people is to increase the job availability so they can probably pay the market rent for housing. That is probably the best long-term solution—improve the employment so people can have jobs to pay a sufficient amount for their housing.

Ms. DOLBEARE. I can't resist making the same comment almost that George made at the beginning of his testimony, I think there is less difference between the two of us than might be apparent from our brief statements here today.

For one thing, I think that it is important to emphasize that I was taking a broad view of housing assistance when I was talking about the scale of housing assistance and how far short we fall. And, I was not talking simply about new construction.

Indeed, only about half of the 4 million assisted units, I believe, without having figures in front of me, have been units that have been built for low-income occupancy. The rest of the assistance is in units already built—either rehabilitated or recently, since 1974, through the section 8 existing program, using the existing stock of housing.

I am a little unsure, Congressman Coats, how to answer your question, because it is not the question, I guess, that I think it the most relevant question, with all due respect. The answer that you would give if you were responding to the question of how you provide the best housing for the largest number of people, I think, would not be very different from the housing policy that we have had in this country for the last several decades.

It has provided, as George has pointed out, extremely well for the very largest number of people. The more critical question to me is how we provide adequate housing for the people who are left out by this process?

Mr. **Coats**. Yes.

Ms. **Dolbeare**. Providing jobs alone will not help people who are too old to work or too young to work. Moreover the labor market doesn't offer enough jobs at wages which make housing through the private sector affordable.

If you are asking how do we provide housing assistance, for the people who need housing assistance in the most efficient and effective possible manner, I would say that, in the first place, we should move toward the same kind of entitlement for housing allowances or housing vouchers that we have in food stamps, for dealing with hunger, or for medicaid and health.

We simply have to provide people in the short run with the money that people who can't afford housing at a cost which the private market requires to provide decent housing—I am not talking about new housing and not talking about fancy housing or anything else, I am talking about housing that meets minimum standards of being adequate.

I think the only way to do so in the short run and long run is through some kind of housing voucher program for all very low income families. I think that needs to be coupled with programs for the rehabilitation or construction of housing in some areas, either for reasons of neighborhood viability or because of exclusionary practices or whatever, or for that matter, to hold long-term costs down.

Housing that is built for occupancy by middle income people is available for occupancy by low-income people, if they also have vouchers.

Mr. **Sternlieb**. I would make two suggestions here.

One, I think this pursues our first speaker, I think we have an instrument which is being misused currently. There has been a general acknowledgement that the United States has the lowest savings rates as best we can measure them, of any major industrial country.

We are at about 40 percent of Germany's level, about a third of Japan. Certainly, that is hurting us.

Within that context, the formal efforts at increasing savings—and here I have reference to some of the efforts made by the administration at the very beginning, have created nothing more than musical chairs. I guess the last and potentially, I think, the most important of them similarly turned out to be just a shuffling of the savings deck and that is the IRA.

I think with the IRA, you now have an entity which is antihousing. It says basically to young folks, "Unless you are very, very sophisticated and very glib and very smart, you can be taxed to hell if you put any money into this account, if you take it out before you are 59 years old."

To that degree, it is an antihousing and antisavings measure, because those are young folks who, again looking at the chart there, are people who should be embarking on major capital investment.

We are now one of the few major countries, without a housing-devoted IRA. West Germany, a very capitalist country which, in the furtherance of its capitalism as a matter of fact, has essentially a prohousing IRA, and so do the British and the Canadians.

You should be able to take your money out without penalty, if it is for first-time homebuying. I think that would bring in a pool of younger savers which we don't have right now. The median age of savings and loans depositors is someplace shy of 60.

We have a whole generation out there that has never learned to save anything. So I think it would be good discipline for them and good housing for them and probably wouldn't cost you a hell of a lot of money, and I think that might be very worthwhile.

On the targeting. One of the dilemmas of this administration, which in the course of the campaign, they were clearly unprepared, was to think that housing in the broad sense is a Federal operation.

It is still the most local business we have. The administration used data (which we had prepared, in part), indicating that somewhere in the order of 20 to 25 percent of housing cost is a function of redundant regulations.

Unfortunately, they didn't realize most of that is local. We do have now the beginnings, I think, of an effort, whether you applaud it or not, of trying to use land use and land values as a measure of subsidy for low-income housing.

The San Francisco and the Orange County, California inclusionary zoning has been joined in my own State by the so-called *Mount Laurel* decision. I think this shows some measure of potential. Again, it may be a very awkward potential.

We will have to see. In the meantime, what you have in California, is a sort of mortification of flesh with zoning areas, as in Marin County, at 60 acres minimum. You then throw in a few Band-aids.

You have rent control, height restrictions, and in San Francisco, you have exclusionary zoning and rent control. Thus the cures are of the diseases which you have generated.

I am not sure that the real answer to housing, at the risk of disrespect to Congress and Washington in general are inside your ball park. It requires local effort. Otherwise, you are going to be subsidizing the hobbies and the prejudices of every State legislature and every local zoning board in the United States to say nothing of the building inspector.

Mrs. **Schroeder**. I was fascinated, Dr. Sternlieb, about your suggestion that some of the programs that gave homeownership to people just starting out are not working.

I guess coming from the Sun Belt, I wonder if a lot of that isn't more regional than it is the program itself. We had an excellent experience with the 221 program in which you had a Federal incentive to get local church groups and attorneys helping low-income families move into housing and own housing. I think ours was exemplary. We really have seen nothing but people go forward.

So I think maybe it may be a more unique thing that is happening on the Eastern Seaboard to cities.

Ms. **Dolbeare**. Doing something badly is no argument against trying to do it well.

Mrs. **Schroeder**. I think there is some merit to that. I think a lot of why the 221 program worked as an incentive was local people got involved with families moving in to show them how you do a family budget and make the mortgage payment. I think we had a lot of savings and loan people working with us.

It has really worked very well.

Mr. **Sternlieb**. Where you had inflation, where you had housing values move up, where you had growth and where you had in-migration and where you had jobs, by definition you had a good housing market, and anybody who could lay hands on a piece of that did well. But certainly the 235 program, was a failure, and fiasco in the old industrial areas. Remember Detroit and Mr. Romney. Suddenly those headlines in the paper, "HUD is the largest slumlord in town." They didn't know how many units they had. They ended with someplace between 12,000 and 20,000. It illustrates the other side of the coin. The issue in all of these problem cases is what is generic and what is the noise in the system.

And certainly, again, let me repeat in good salubrious areas, sure, we had a little problem here and there, but it made marvelously good sense. In areas going downhill, we were sort of using the enthusiasm of poor folks, of guys who had a job and wanted a piece of the action; who were sandbagged by a flood of decay that swept them right out.

That is the real disaster. Now, how politically can one insure the economic viability of an area? You are putting the Federal Government into the real estate business, and the real estate business has been a hell of a lot better in the growth areas than in the no-growth areas.

Mrs. **Schroeder**. We desperately need a crystal ball. I am sure savings and loans have done the same thing.

Mr. Scully, I found your statement about the growing deficit absolutely right. One of the things that you said we must look at also concerns me—the borrower to saver gap that you are talking about.

Tell me more about the savers. We know they are getting older. Are their savings getting to be more or less?

Mr. **Scully**. The savings rate now is 6 or 7 percent. It is about average on what it has been over the past 20 years. Our concern is simply because of the demographic changes, you are going to get a reduction in savings, as a result of the substantial increase in the group 25 to 44, who don't save as much money.

Interestingly, the people that save the greatest percentage of the money is the over-65. The trouble is they don't make much money, they don't have high earnings, but the group 55 and over save at a rate twice as high as the group 25 to 44.

So, when you have a decline, a substantial increase in the people that don't have money or save less and a decrease in the people who save more money, you have a crunch, and we simply don't think that that is talked about enough.

It is going to mean a blocking out of a great number of people, and we went through this problem a little bit in the early eighties. What you didn't have in 1981-82, you didn't have the crowds of people saying, "I want to own a home" or "want to live in an apartment."

Suddenly, they are all coming home. The American dream of educating the children, sending them to college and then having them live independently coud become a nightmare, they are all coming home.

Mrs. SCHROEDER. If you look at the higher education debts that are being run up, you find your younger borrowers are wanting to borrow more.

Mr. SCULLY. They can't afford an apartment unit, so they come home. Eventually, the parents are going to want them to find their own home and the children are going to want to find their own home, and there is no apartment construction going on in the country.

We are really asking the committee to look beyond tomorrow, look at the decade because these questions are going to have to be answered by tax policy and spending policy now, or else it is almost inevitable conflict by 1985.

Mr. STERNLIEB. Let me pursue that point.

There has been no formal study of this. We have to practically tease it out of a few case studies, the little door-to-door work that has been done and some analysis of census data which hints at it.

And that is a new phenomenom which I think is probably something that we haven't heard from since World War II housing shortages, that is the doubling up now, not in central city, but in classic suburbia. As best we can figure out, there is somewhere in the order of at least 2 to 3 million housing units which are now most of them illegally occupied by two households where at one time it was one.

Some of this is salubrious, it is maybe the elderly looking for some help and company. Some of it is a very sad commentary on the decline of housing buying power that is practically generic.

Second, it is occurring in public housing. An area where we are no longer counting because the results are so painful and (legally, by the way, so compromising). In heavy New York City's public housing, which is the best-run public housing in the United States. There in a model for public housing, they started doing some door-to-door survey work, and they counted up 17,000 units, before they stopped counting, which are now illegally occupied by two households.

Mrs. **Schroeder**. When I chaired the Census Subcommittee that was our biggest problem. Minority neighborhoods didn't want to answer the Census for fear they would be in trouble with the law.

My last question, I wanted to ask Ms. Dolbeare. We are seeing an incredible thing happening in Denver. There are the low-income apartments where the 20-year mortgage are almost paid up. Then somebody says, "We are converting them to condominiums," and the elderly or whoever happens to live, have to go and find another place to live.

Is that happening nationwide? Have you seen that? It is really going to impact the little low-income housing we do have left. Is it happening just because our market seems to be booming more than others?

Ms. **Dolbeare**. No; it is happening nationwide. It is one of the real—in dollars, it isn't terribly important, but in impact on the housing market, I think the structure of incentives for rental housing is so perverse. In the first place, the incentive to invest in rental housing is not so much to provide shelter as it is to get a tax shelter. Then you have to convert at a certain point, because you simply can't afford to hold on to your unit, your negative cash flow becomes positive cash flow, and you have used up your shelters, so that you have to sell.

In today's market or recent markets, it has been far more profitable to sell to a condominium converter. Furthermore, the tax code gets even more perverse because, if you decide at this time simply to sell the units to your tenants, you will be taxed on the increase at ordinary income rather than capital gains rates, so that you can't leave current tenants in there. The only thing that mitigated somewhat has been one of changes made in the 1981 tax reform, which now does make it possible to syndicate and get the same kind of tax shelters for existing housing that you get in new housing. But it is a tremendous problem all over the country, it is one which has been created by legislation—not through housing, but through the tax code—and one for which so far the remedies are totally inadequate.

Mr. **Sternlieb**. I know there has been enormous publicity and a harsh reality. We have done studies for the city of Washington in this regard. But the flow of condo conversions has slowed down in part because the market is weak.

Two, you must view the housing system as a system. You will get more rental housing built if there is an assurance that you can get out through condo conversion 6 to 8 years down the road.

That is where all the wise money that is moving into rental housing has got to come from. That in combination with the 15-year writeoff is going to generate rental housing.

If, on the other hand, you end up with a situation in which you have no assurance that ultimately you will be able to get out, other than to somebody else who happens to be an operator and secondly, there is also the potential threat of rent control; that is a market that people will not move into. But at least conceptually, condo conversion should aid rental housing.

Now, one other point.

We have had examples in New York City as a very good case in point, of some low-income facilities converted for upper-income groups, but that is relatively rare. Generally speaking, it is conversion of condos occupied by some aged refugee from Foggy Bottom, far from a low-income individual, whose apartment gets converted. Now, a question which you really have to answer, does this individual have a lifetime right to that apartment? If so, you have a different property system, and you must build housing in a different fashion. There are other parameters to consider. Let me take Washington, because I know the data here. On condo conversion, you have a 100-percent increase in your tax take, in a town that desperately needs taxes. Generally speaking, I can't speak for Denver, which no longer is a growth market, by the way, sadly enough, but generally speaking, what you are doing on condo conversion, is you are taking inexpensive rental units away from the upper middle class and converting them for more youthful members of the upper middle class as ownership.

You are generating taxes which hopefully in a good community might support some of the poor.

Mrs. SCHROEDER. But the ones that I am concerned about are the specific ones that came in with Federal loans for low-income housing. I think we are talking about two separate things. The first concerns private investments. The other is Federal investment when conversion occurs after the Federal mortgage is mature. It has been a different kind of agreement between the renter, Federal Government and the owner.

Ms. DOLBEARE. I think that is a factor. I think an equally significant factor has been HUD's own policy. The 236 and other projects have gotten into difficulty because they were designed to serve middle-income people and then ended up serving low-income people without enough subsidy. HUD is not in the view following our requirements of the law which say that those properties are to be disposed of for low-income occupancy.

They are now through a variety of mechanisms disposing of them in a way which gets them out from under the subsidy contract and subsidy responsibility. But in conclusion, if I may, it seems to me a lot of comments George made while they are accurate, have negative impact on the low-income families, because we don't really have a concept of a safety net in housing.

Maybe what we ought to try to figure out, if we are going to let housing markets continue to operate this way, what kind of safety net we need and put it in place.

Mrs. SCHROEDER. Well, we hope the three of you find one and let us know. We need all the help we can get. I want to thank all of you very sincerely for being here.

Ms. DOLBEARE. I hope you feel cheered up.

Mrs. SCHROEDER. We don't feel cheered up. We feel like we are in deep trouble. Thank you very much for being here and sharing your time.

[Whereupon, at 1:05 p.m., the task force was adjourned.]

[Material submitted for inclusion in the record follows:]

August 24, 1983

Dr. Isabel V. Sawhill
Urban Institute
2100 M Street, N.W.
Washington, D. C. 20037

Dear Dr. Sawhill:

This is to express my personal appreciation for your appearance before the Select Committee on Children, Youth, and Families' Economic Security Task Force at its first hearing on July 18, 1983. Your participation contributed to making the hearing a success.

The Committee is now in the process of editing the transcript of the hearing for publication. It would be helpful if you would go over the enclosed copy of your testimony to assure that it is accurate, and return it to us with any necessary corrections, along with a copy of your paper entitled "Human Resources," which you have indicated you would like to submit for the record.

Also, Congressman Dan Marriott, Ranking Minority Member of the Committee, has submitted several questions and asks that they be answered for the record:

1. At our first hearing, Bruce Chapman, Director of the Census Bureau testified that poverty is increasingly a function of family composition rather than economic condition alone. This raises concern with the evidence that our current welfare system might be fostering marital and family disruption. Could you please comment on what evidence/research is available in this area, particularly that of Hoffman and Holmes?

2. Based on your literature defining the difficulties in providing a "family neutral" welfare policy, and the subsequent budgetary limitations, how would you address the changing life style of our welfare population?

3. In following up on your reference to a "leaky bucket," with regard to income transfers, what transfers do you see as having potential disincentives to work?

Again, let me express my thanks, and that of the other members of the Committee, for your testimony.

Sincerely,

GEORGE MILLER
Chairman
Select Committee on Children,
    Youth, and Families

GM/j

Enclosures

SEP 20 1983

THE URBAN INSTITUTE 2100 M STREET, N.W. WASHINGTON, D.C. 20037

83/528

September 15, 1983

The Honorable George Miller
Chairman, Select Committee on Children,
Youth, and Families
United States House of Representatives
Room H2-385 HOB Annex 2
Washington, DC 20515

Dear Congressman Miller:

This is in response to the questions raised by Congressman Dan Marriott. I will try to answer them as best I can.

Question 1: I believe that changes in family composition have contributed to the incidence of poverty or low income. People appear to use some of their income to "buy" privacy or independence from relatives. The issue of whether the current welfare system fosters disruption is more difficult to resolve. The evidence is somewhat mixed but my own impression is that any effects are rather small. I enclose a paper on the topic.

Question 2: In my opinion, the heart of the problem is very early childbearing. I don't think that teenagers are ready either financially or psychologically to take on parental responsibilities. This is the root cause of a great deal of poverty and welfare dependency. For this reason, I favor education and counselling about sex, marriage, and parenthood, family planning services, and (as a last resort) abortion. Unwanted and abused children grow up to become neglectful or abusing parents. That cycle must be broken. Child support is also critical. If young men, in particular, knew that they would ultimately be financially responsible for any children they fathered, they might act more responsibly.

Question 3: Virtually all income transfers have disincentive effects. Quantitatively the most important would be social security, disability insurance, and unemployment insurance because these affect the most people. I can refer you to an excellent review of the literature on this topic. It was done by Sheldon Danziger, Robert Haveman and Robert Plotnick, "How Income Transfer Programs Affect Work, Savings, and the Income Distribution: A Critical Review," Journal of Economic Literature, vol.19, no.3, September 1981, pp.975-1028.

I hope this is useful.

Sincerely,

Isabel Sawhill

Isabel V. Sawhill

Enclosures

(See p. 203 for disposition of enclosures referred to on question 1.)

PEARCE, Diana

Hearing of 7/18/83

August 24, 1983

Dr. Diana Pearce
Director or Research
Center for National Policy Review
Catholic University of America
School of Law, Room 10
Washington, D. C. 20064

Dear Dr. Pearce:

This is to express my personal appreciation for your appearance before the Select Committee on Children, Youth, and Families' Economic Security Task Force at its first hearing on July 18, 1983. Your participation contributed to making the hearing a success.

The Committee is now in the process of editing the transcript of the hearing for publication. It would be helpful if you would go over the enclosed copy of your testimony to assure that it is accurate, and return it to us with any necessary corrections.

Also, Congressman Dan Marriott, Ranking Minority Member of the Committee, has asked that the following question be answered for the record:

> Approximately what percentage of the two-thirds of women you cite as receiving "secondary sector" (welfare) benefits are females under the age of 21? Would you consider teenage mothers to be of higher risk for "secondary sector" benefits? Would you support programs aimed at reducing the "secondary sector" risk through basic parent/economic education?

On page 36 of the transcript, Congressman Wolf asked that you submit for the record, studies you mention about the need for the mother to be in the home in terms of the child.

Again, let me express my thanks, and that of the other members of the Committee for your testimony.

Sincerely,

GEORGE MILLER
Chairman
Select Committee on Children,
Youth, and Families

GM/j

HOUSING: AN OVERVIEW, CONGRESSIONAL RESEARCH SERVICE, THE LIBRARY OF CONGRESS

By Morton J. Schussheim*

Introduction and Summary

Housing has a strong claim on the hearts and purses of Americans. Two out of three households own their homes and an even higher proportion say they would like to. For this privilege American families with mortgages typically spend about 20 percent of their income, more if they are recent purchasers. For many families, the house is their principal asset; any threat to the value of the property is viewed with grave concern. Opposition to racial or ethnic change in the neighborhood is commonly put in terms of "protecting our property values."

Strongly held values like the desire for homeownership have a way of gaining support in laws and practices of governments. In the United States an elaborate system of benefits and preferences for housing has evolved over the years. These include tax deductions, government guarantees of mortgage loans, and insurance of savings deposits in institutions that specialize in housing loans. Direct subsidies for housing have also been made available for some low- and moderate-income families.

Housing conditions and amenities have improved markedly for the population over the past half century. In the 1930s President Roosevelt had called attention to the one-third of a nation who were ill-housed. Millions of families lived in squalid city slums and rural shacks, houses that were structurally unsound or lacked central heat or bathrooms or even running water. By the end of the 1970s many of these substandard houses had been replaced or rehabilitated. The ratio of ill-housed in physically flawed or overcrowded shelter was down to about one-tenth of the nation. But for a large group of lower income families who lived in "standard" units, the problem was having to pay too much of their income for shelter.

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*Senior Specialist in Housing, Congressional Research Service, Library of Congress. Assistance was provided by Nancy Saltojanes, Research Assistant, and Sheree Wood, Secretary.

For most American families, housing improvements have come because they were willing to spend substantial proportions of their rising incomes to upgrade their living arrangements. And their representatives in legislative bodies have sensed these popular preferences and undergirded them with an extensive support system.

Still, if housing has had something of a priority on the public agenda, other concerns have sometimes elbowed it out of the way:

- To curb inflation the monetary authorities have recurrently tightened the money supply, with disproportionate impact upon the credit-sensitive housing industry. Housing has been pushed into a recession four times between 1966 and 1980 by restrictive monetary policies.

- Programs to help low-income people obtain decent housing have sometimes been shut down on short notice. The grounds for such actions have been the desire to cut back on government spending generally, to eliminate wasteful or inefficient programs, or similar reasons. In 1973, for example, President Nixon abruptly suspended all new commitments for assisted housing despite a national goal adopted by Congress in 1968 to produce 6 million homes for low- and moderate-income people over the following 10 years.

- As recently as 1980 and 1982, the Congress adopted wide-ranging measures to rescue the ailing savings and loan industry. Savings and loan associations have been authorized to engage in a range of financial services to consumers and businesses and to operate more like commercial banks. Thus, their historic raison d'etre as specialized conduits of funds for housing is becoming attenuated with uncertain consequences for the housing industry.

- Worries about low rates of productivity and slow economic growth have prompted changes in the tax code that are particularly favorable to investment in industrial plant and equipment, less so for rental housing.

Over a period of years the demand for housing tends to reflect population growth and household arrangements and the affordability of housing. The investment motive may also add to demand, as in the late 1970s when house prices were rapidly escalating and offered the prospect of large capital gains. Market demand may be supplemented by a public commitment to replace a certain number of low-quality houses occupied by low-income people.

At the end of the 1970s these factors pointed toward a vigorous level of housing construction in the 1980s. The demographics and economic conditions suggested a potential market demand for 2.3 to 2.7 million units a year during the decade. Replacement of physically inadequate or crowded units occupied by very-low income households would require an additional 500,000 units a year for 10 years.

These estimates have been substantially lowered in light of changes in social priorities and prospects for the economy. The first three years of the decade were something of a disaster for housing due mainly to uncommonly high interest rates. Housing starts fell to near-record lows for the postwar period, ranging between 1.1 and 1.3 million units a year. For the remainder of the decade housing starts could average perhaps 1.5 to 1.8 million units a year with mobile homes contributing another 300,000 a year.

Household formations are likely to be below earlier projections because of structural unemployment, slow growth of household incomes, and a lower propensity or ability of individuals to form or maintain independent households. Faced with relatively high and floating mortgage interest rates and sluggish home prices, families who already own homes will be less inclined to trade up to a more expensive house. And the boost to production from subsidized housing is likely to be small as compared with the 1970s.

Major adjustments can be expected in the standing stock of real estate. The process of creating additional housing resources through the subdividing of large houses and the conversion of some commercial and industrial structures to residences is likely to continue. There will be more sharing of houses and apartments even without physical alterations or conversions. Fortunately, the nation entered the 1980s with a large stock of housing--86 million year-round units containing some 450 million rooms. We are likely to see this stock used more intensively than previously anticipated in response to market pressures and public policies.

Some Characteristics of Housing and Housing Markets

We sometimes discuss housing in millions of units as if there were a single national market for a homogeneous good or service. In fact, there are thousands of local housing markets which are further divided into submarkets by neighborhoods, types of structures, and prices. A typical home builder constructs about 25 houses a year. To such a builder trying to decide on what kinds and how many houses to get under way, a national demand projection of 1.5 or 2 million units a year is little more than an abstraction. He might find more useful a local market analysis that estimates demand for the area and allocates it between sales and rentals, by price or rent range, and among the geographic districts or political subdivisions of an urban area. Such estimates are prepared from time to time by the Department of Housing and Urban Development (HUD) and by other agencies and private firms.

Local construction activity and projections are not insulated, however, from certain national factors such as changing credit conditions. For example, HUD analysts estimated housing demand for the Minneapolis-St. Paul area at 18,000 unsubsidized new units a year over the 1979-1982 period. 1/ This

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1/ U.S. Department of Housing and Urban Development. Economic and Market Analysis Section. Analysis of the Minneapolis-St. Paul, Minnesota housing market. Minneapolis, MN. January 1, 1979. 37 pages.

proved to be too high--by only 1,000 units in 1979, but by 5,000 to 7,000 units per year from 1980 through 1982. Analysts of local market areas, like those making national projections, could not foresee the sharp increases in interest rates that would commence in the latter part of 1979 and undermine the affordability of housing over the next several years.

To the homebuyer or real estate agent, "housing" is one or several properties with a particular set of characteristics--the shape of the lot, the size of the bedrooms, the presence of a fireplace, the reputation of the neighborhood school, the price, the monthly payments.

Housing is unlike most other consumer goods or services.

- It is long-lived, and the initial capital outlay is large relative to current income or amenity. This relationship explains the need of most purchasers to borrow the bulk of the capital cost and to schedule repayment of the borrowed funds plus interest over a period of time. In considering a home loan, lenders and mortgage insurers look to the level and stability of income of the applicant, not just to the value of the property pledged against the loan. Most home loan foreclosures occur in the early years of the loan before there is any appreciable paydown of debt.
- Housing is fixed in place, affecting and affected by nearby activities. Once put in place, a house is rarely moved. Thus, the quality of housing services is closely linked to what takes place in the immediate vicinity--the compatibility of other private land uses, traffic, and the availability of local services such as transportation and schools.
- Residential mobility is relatively high in the United States and few residential structures are occupied throughout their physical life by the same family. Owner-occupied structures turn over on average every 8 to 10 years; rental units typically have a change of occupants every 2 to 3 years. Properties that turn over rapidly are likely to require more maintenance and replacement of components than slow-turnover structures, especially in the case of rental accommodations.

Why Governments Get Involved in Housing

Housing serves both private and public purposes. For the individual, housing is shelter, providing protection against the elements, a place to store one's goods, and a measure of privacy from the rest of the world. For the homeowner with a traditional mortgage, it is also a form of saving, and in time of inflation both a hedge and a way of accumulating net worth. Not least, the house is a ticket to schools and other community services and facilities. Indeed, the value of a residential property is closely linked to the quality of local services to which the occupants may have access; superior schools and other facilities tend to bolster property values. Conversely, higher-priced properties can generate larger tax receipts for the local jurisdiction and make possible the provision of higher-quality services.

For a society, housing is a merit good. Most people believe that every family and individual is entitled to some minimum amount and quality of living space. In the United States, the national goal is "a decent home and a suitable living environment for every American family." There is no official definition of "a decent home," but housing analysts might agree on such attributes as a sound roof and walls, a functioning bathroom and kitchen for the exclusive use of a household, a central heating system (and air conditioning in some climates), and no more than one person per room. Quality standards are usually specified in local housing and building codes.

The interdependence of activities within a confined space is another reason for government involvement in housing. The way Smith uses or misuses his property may affect the safety, livability and value of his neighbor Jones' property. And the reciprocal holds for Jones' behavior as a neighbor. Wherever people have established permanent settlements, they have turned to the social body to protect the habitations of those who live near each other. In the modern community, interdependence is the rationale for zoning, building codes and housing codes, traffic controls, and neighborhood or area-wide approaches to the renewal or rehabilitation of older housing.

Housing is also a means of redistributing income. Since shelter costs are a large part of a family's budget, measures that significantly reduce a group's housing expenses relative to those of others have the effect of shifting income. Some of these efforts are easily recognizable, as in the case of public housing provided at less than cost to low-income people. A far more pervasive and expensive but less obvious redistribution occurs through provisions of the Federal tax code permitting taxpayers to deduct interest on home mortgage loans and local property taxes. Since the proportion of taxpayers who are homeowners rises in each higher income bracket and mortgage amounts parallel income, the largest aftertax gainers are affluent people.

Finally, in industrial societies like the United States, housing is a way of affecting the level of economic activity. An increase in housing production has a multiplier effect: spending tends to rise in such sectors as timber and mining, transportation, furniture, household appliances and furnishings, and financial services. Programs like mortgage insurance through the Federal Housing Administration (FHA) and public housing had their origins in the 1930s when activity in construction and related industries was very depressed. In more recent periods of economic slackness, housing stimulus programs have been urged as a way of giving a boost to the general economy.

Conversely, housing has sometimes been seen as a major contributor to an inflationary or overheated economy. In theory there are several approaches to curbing inflation; in practice, however, the job has fallen mainly to monetary policy. The tightening of credit is felt throughout the economy but most immediately and deeply in the housing industry. Thus, the monetarist stance adopted by the Federal Reserve Board in 1979 had a profound effect on housing activity. Housing starts dropped by 59 percent from peak to trough (second quarter 1978 to fourth quarter 1981) and sales of existing homes by almost as much. Ultimately the entire economy fell into the most severe period of unemployment since the 1930s.

Housing Requirements

Estimates of future housing requirements are based on three components: projected increases in the number of households; replacements for units lost by fire, flood, private demolitions, clearance of unfit habitations, obsolescence, and similar causes; and allowances for vacancies and second homes. 2/ Some estimates reflect potential market demand, the number and types of housing that people will actually buy or rent at going prices or rents. Other estimates are based on the concept of housing need: the amount of shelter required to provide every home seeker with a suitable and affordable place to live at specified standards of quality and space. The estimates of "neednika" are usually higher than those of "demandniks" since they are not constrained by ability-to-pay considerations; rather, they view housing as an entitlement and imply that public subsidies will be provided for all households who cannot afford decent housing.

Estimates of potential market demand are usually shown in a range since there are large elements of uncertainty about underlying economic conditions. For one thing, household formations--the largest part of housing demand--are not independent of housing costs. If housing costs rise relative to incomes, some of the potential households might not be established and some existing households might be forced to dissolve. This might be especially true of so-called nonfamily households, mostly single persons living alone. Such households made up more than one-fourth of all American households in the

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2/ This and the following section are adapted from an earlier paper by the author entitled "Housing Needs of Lower Income Families and Federal Program Levels," Congressional Research Service, September 1981.

early 1980s, and, according to one set of Census Bureau projections, might constitute almost half of all added households during the decade.

Similarly, replacement demand, the component with the widest band of uncertainty, may be on the low side in a period of slow economic growth and high development costs and financing charges. Market forces as well as government policies would tilt the balance toward conservation of older properties and away from new construction.

Estimates reflecting these considerations have been prepared by Jaffee and Rosen. 3/ Their demand estimates for the 1980s range between 18 million and 27 million with a medium figure of 21 million (see Table 1). The Jaffee-Rosen projections are lower than those of some other analysts because they expect relatively slow income growth and higher real costs of rents than in the 1970s. In light of the dismal performance of housing in the early eighties, the pessimistic Jaffee-Rosen estimate--18 million units--may prove to be the most realistic.

Table 1

SUMMARY OF HOUSING DEMAND BY COMPONENT IN THE 1980s

	Economic Alternatives		
Demand Component	Pessimistic	Base	Optimistic
Population Growth and Age Distribution Changes	12 million	12 million	12 million
Household Headship Rate Changes	4.2 million	5.5 million	7 million
Replacement Demand	1.8 million	3.6 million	8 million
Total Demand	18 million	21.1 million	27 million

Source: Jaffee and Rosen.

3/ D. Jaffee and K. Rosen, "The Demand for Housing and Mortgage Credit..." In Housing finance in the eighties: Issues and options, An FNMA symposium, Washington, D.C., February, 1981, pp 8-13.

Housing Needs of Low- and Moderate-Income Families

Outside of the estimates of potential market demand are the many households with insufficient incomes to afford adequate housing. The needs of some of these people have been addressed piecemeal by various Federal housing assistance programs adopted since the 1930s. But in 1968 the Congress attempted to recognize total social needs by calling for the construction or rehabilitation of 26 million housing units over the following 10 years including 6 million specifically for low- and moderate-income families.

In deriving the target of 6 million, HUD technicians tallied up the number of dilapidated or otherwise substandard housing units in the inventory and projected the number expected to become defective over the decade. In a separate analysis they arrived at the same figure by estimating the number of families who would need financial help to live in standard housing without paying an excessive proportion of their income for housing. 4/

How close did we come to meeting these goals? The private market performed very well, with 18.8 million units being produced or rehabilitated from 1969 through 1978. 5/ Thus, 94 percent of the unassisted sector target was achieved. Subsidized production for lower income families, however, fell well short of the target: 2.7 million units were produced or 45 percent of the goal. In addition, about 700,000 existing units not requiring rehabilitation were added to the subsidized inventory through a new housing program during the 10-year period ending in 1978. This approach was not considered in the 1968 target, which emphasized production for lower income families.

4/ U.S. President, 1963-1969 (Johnson). First Annual Report on National Housing Goals. House Document No. 91-63, 91st Cong., 1st Session. Washington, U.S. Government Printing Office, 1969. pp. 48-53.

5/ Of the total housing production during the target period, 3.8 million were mobile homes. In the original estimates prepared in 1968, mobile homes were not viewed as satisfying projected needs.

Since the national housing targets were laid down in the late 1960s there has been a shift in the way the problem is perceived and measured. As housing conditions have continued to improve and the housing stock to grow, there has been an inclination to see the challenge more in terms of insufficient income than of low-quality accommodations that have to be replaced. The higher cost of assisting families in new housing as compared to existing units has reinforced this view among budget-strapped Washington officials.

However the problem is perceived, it is now possible to get a better handle on the scale of need. A housing survey conducted annually by the Bureau of the Census for HUD since 1973 permits estimates of social need for various income groups in terms of physical condition, space standards, and cost burden.

In 1979 (the latest year for which data have been analyzed), there were almost 37 million "lower income" households in the United States--households with income of 80 percent or below median income, adjusted for household size and location. Of these, 5.7 million were living in physically inadequate housing. Typical defects were lack of or shared bathroom or kitchen, multiple structural problems such as leaky roofs, holes in floors, cracks in walls or ceilings, recent evidence of rats or mice, or frequent breakdowns of toilets, heating or electrical systems.

Crowding was another problem for lower income households, indicated by an occupancy of more than one person per room. Almost 1.4 million households were living in crowded (although physically adequate) quarters. But a larger segment of lower income households, while occupying adequate and uncrowded shelter, had heavy housing expenses relative to income, defined as more than 30 percent for renters and 40 percent for owners. 6/ Households with this type of housing problem numbered 10.7 million, or about 29 percent of all

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6/ These data are from the 1979 Annual Housing Survey. HUD analysts estimate that a 40 percent burden for homeowners is equivalent to 30 percent for renters taking into account preferential tax treatment including deductions of mortgage interest and property taxes and nontaxation of imputed rent.

lower income households in the United States.

As seen in Table 2, renters had relatively more housing problems than owners. Among lower income renter households, two out of three had housing difficulties; for lower income owners, the ratio was about three out of ten. Physically inadequate housing is comparatively more prevalent among owners with housing problems than among renters, perhaps reflecting the high incidence of homeownership among poor families living in rural areas. A heavy cost burden was the predominant housing problem for all lower income households, but more so for renters than owners.

Table 2

HOUSING NEEDS OF LOWER INCOME HOUSEHOLDS

	(000's)		
	Owners	Renters	Total
Lower income households a/	19,118	17,874	36,992
Living in physically inadequate housing	2,258	3,447	5,705
Living in crowded units (not physically inadequate)	533	836	1,369
Heavy cost burden b/	3,100	7,563	10,663
Total with housing problems	5,891	11,846	17,737
Percent of all lower income households	30.8	66.3	47.9

a/ Households with incomes 80 percent or less of median income, adjusted for size of household and location.

b/ Housing expenses greater than 30 percent of income for renters, 40 percent of income for owners paying into mortgage principal; not in crowded or physically inadequate units.

SOURCE: Department of Housing and Urban Development, Office of Policy Development and Research. Based on 1979 Annual Housing Survey. Designation of ratios representing "heavy cost burden" by CRS.

"Very low income" households--here defined as those with incomes 50 percent or less of median income, adjusted for household size and location--have the highest incidence of housing problems. Among the 21.1 million such households, 12.9 million had housing difficulties of one type or another with heavy cost burdens accounting for the lion's share. But almost 4 million very low income households were living in physically deficient housing and another 800,000 in physically adequate but crowded units. Renters in this income category are particularly deprived when it comes to housing with almost eight out of ten having a housing problem.

Table 3

HOUSING NEEDS OF VERY LOW INCOME HOUSEHOLDS

	(000's)		
	Owners	Renters	Total
Very low income households a/	9,747	11,378	21,125
Living in physically inadequate housing	1,514	2,480	3,994
Living in crowded units (not physically inadequate)	230	537	767
Heavy cost burden b/	2,427	5,715	8,142
Total with housing problems	4,171	8,732	12,903
Percent of all very low income households	42.8	76.7	61.1

a/ Households with incomes 50 percent or less of median income, adjusted for size of household and location.

b/ Housing expenses greater than 30 percent of income for renters, 40 percent of income for owners paying into mortgage principal; not in crowded or physically inadequate units.

SOURCE: Department of Housing and Urban Development, Office of Policy Development and Research. Based on 1979 Annual Housing Survey. Designation of ratios representing "heavy cost burden" by CRS.

To sum up, there were almost 18 million lower income households in the United States with serious housing problems, including some 13 million with very low incomes. To deal with these problems over a 10-year period would require extending assistance to up to 1.8 million additional households each year. The bulk of these families would require a housing voucher or income supplement. A more traditional approach of producing housing for those living in physically deficient or crowded housing would entail the construction or rehabilitation of 500,000 to 700,000 units a year over 10 years.

Who Are the Underhoused Poor?

Those who cannot afford decent housing are not a random cross section of the general population. Such families are concentrated among certain groups and areas, a pattern sometimes recognized in the design of housing programs. The most recent surveys continue to show disproportionate housing disadvantages among elderly households (65+ years) and young households (less than 30 years), large households of 6 or more persons, female-headed households, blacks and Hispanics.

In terms of location, residents of rural areas outside of metropolitan areas and those living in large central cities have the highest incidence of physically defective housing. In rural, nonmetropolitan areas, the most common deficiencies are lack of plumbing, full kitchens and access to water and sewerage facilities, conditions that are relatively expensive to correct. In large cities, the defects are typically poor maintenance such as cracks or holes in floors, ceilings or walls and bad or shared plumbing. Such conditions are especially pronounced among lower-income black households.

When the housing problem is viewed as a burdensome expense relative to income, the most disadvantaged groups are female-headed households, black renters, and elderly households. 7/

7/ U.S. Department of Housing and Urban Development. 1980 National Housing Production Report. February, 1980, p 52. This report is the successor to the Annual Reports of the President on the National Housing Goal, which were sent to the Congress each year from 1969 through 1978.

Financing Housing Activity

Housing is a major user of capital funds, absorbing on average about one-fourth of all funds raised in the domestic credit markets. But housing borrowers are up against tough competition: business firms, households buying autos and other big-ticket items on credit, farmers, State and local governments, and the Federal government itself. These other sectors have usually been able to outbid mortgage borrowers, as in 1981 and 1982 when housing's share dropped to 15 to 20 percent. At other times housing has absorbed 30 percent or more of total credit, as in 1972 and again in the years 1977 to 1979.

Loans are obtained for three types of housing activity: on a short-term basis to finance construction; for the purchase of new homes and apartment buildings; and to facilitate transactions in existing properties. Construction loans are made to building firms as business loans, bear interest rates several points above the prime rate, and are usually paid off with funds from the permanent or long-term mortgage loan when the purchasers of the completed structure take title. Long-term mortgages typically comprise 75 percent or more of the purchase price with the buyer making up the balance as a downpayment or equity investment.

Mortgage lenders must protect themselves against two types of risk: the risk of default on the loan and the risk that interest rates will rise and reduce the market value of a fixed-rate investment. Inflation and high interest rates in the early 1980s made lenders painfully aware of interest-rate risk. The cost of funds to savings and loan associations, for example, averaged 11.5 percent in late 1981 while the interest return on mortgages they held was only 10 percent. To protect themselves against such negative spreads, thrift institutions are turning to a variety of new mortgage instruments with adjustable rates or shorter terms in lieu of the traditional long-term fixed rate mortgage.

Lenders have had more experience in dealing with default risk. In considering an application for a loan they must be persuaded that the expected income stream of the investor or home buyer will be sufficiently large and stable to cover operating expenses for the property. This task has become more difficult in recent years with the introduction of graduated payment mortgages that assume rising incomes of borrowers and adjustable rate mortgages that may result in large increases in monthly payments. A further complication is the dependence of an increasing proportion of home borrowers upon two incomes to meet the mortgage payments. Lenders protect themselves by lending only a portion of the estimated value of the property and usually require mortgage insurance when the ratio of loan to value is high--80 percent or more.

Changing Sources of Mortgage Money

What are the sources of residential mortgage funds? The main primary lenders--those who deal directly with borrowers--are savings and loan associations, commercial banks and mutual savings banks. Mortgage bankers also deal with borrowers mainly in originating mortgages and servicing them. Unlike depository institutions, however, they do not hold mortgages as long-term investors, but act as agents for banks, insurance companies, the Federal National Mortgage Association and others.

For many decades the savings and loan associations have been the principal source of home financing. Their funds came mostly from local depositors and were relent largely to home borrowers within the same local market area. The most specialized of all financial institutions involved with housing, savings and loan associations as a group had more than 70 percent of their assets in residential mortgages and mortgage-backed securities in 1982. This proportion is expected to decline as the savings and loans take on more consumer and business loans as authorized in acts passed in 1980 and 1982 (P.L. 96-221 and P.L. 97-320).

In the late 1970s savings and loans accounted for almost half of all holdings of residential mortgage debt. This predominance has already declined and is expected to shrink further over time as some savings and loans choose to function more in the nature of mortgage bankers and others like commercial banks.

Other financial institutions that hold substantial portions of their assets in residential mortgages and mortgage-backed securities are mutual savings banks (53 percent), commercial banks (11 percent), and life insurance companies (8 percent). But prior to 1982 mutual savings banks operated in only 16 states, and life insurance companies were less and less inclined to hold whole residential mortgages. The commercial banks have sometimes been described as fair-weather friends of housing, but as a group they have at least maintained the housing share of their investments since the early 1970s, and continue to be an especially important source of residential loans in rural areas.

It is in the secondary markets that the most dramatic changes in housing finance have occurred since the beginning of the 1970s. Through secondary market facilities and mortgage pools, the mortgage markets have become closely linked to the national capital markets and attracted funds from nonmortgage-oriented investors such as trust departments of banks and pension funds.

Secondary market facilities have several functions:

- narrow regional differentials in the supply and cost of mortgage funds;
- assist selected marginal risk borrowers and help them find acceptance in the private market, such as urban renewal developments in the 1950s;
- finance developments for low- and moderate-income families;
- moderate cyclical fluctuations in the availability of funds for housing; and
- supplement long-term funds for housing by attracting investors that would not ordinarily invest in residential mortgages.

The leading secondary market facilities for housing are all government-related: the Federal National Mortgage Association, (Fannie Mae), the Federal

Home Loan Mortgage Corporation (Freddie Mac), and the Government National Mortgage Association (Ginnie Mae). The Federal Home Loan Banks also participate in a sense by selling securities in the capital markets and making advances to savings and loan associations. The largest single purchaser of residential mortgages in the nation is Fannie Mae with a portfolio of almost $70 billion at the end of 1982.

The most rapidly growing sources of funds for housing have been mortgage pools and trusts. These are bundles of mortgages against which securities are issued and sold to pension and retirement funds, trusts administered by banks, thrift institutions and others. Mortgage banking companies have been particularly active in setting up such pools and managing them for a fee.

The impetus to these pools came from government guarantees of timely payment of principal and interest on the securities. Ginnie Mae first implemented such guarantees in 1970. By the end of 1982 mortgage pools had grown to more than $200 billion, over half guaranteed by Ginnie Mae. Freddie Mac and, more recently, Fannie Mae have also instituted guarantee programs. Mortgage pools accounted for 1 out of 6 dollars of residential mortgage debt outstanding at year end 1982, and the ratio is expected to rise in coming years. Efforts are under way to encourage the expansion of mortgage pools under completely private auspices.

Individuals and other groups were called upon to finance a larger proportion of housing transactions in the tight money years of the early 1980s. Many owners of houses who wished to sell during this period found it necessary to assist purchasers by taking back mortgages at below-market rates or facilitating assumption of their mortgages where permitted by (or concealed from) lenders. To dispose of excess inventories, some builders offered to buy down mortgage costs to purchasers with up-front payments to lenders. This unhappy phenomenon for sellers came to be known as "creative financing." For many families selling houses, these concessionary arrangements amounted to a substantial reduction in realized prices.

New Mortgage Instruments

Along with the transformations of lending institutions have come significant changes in the types of instruments available to finance housing transactions. The long-term fixed rate mortgage did yeoman service during much of the postwar period, but proved unsuitable for an inflationary era. Since the late 1970s, Federal regulatory agencies and institutional lenders have introduced an assortment of flexible mortgages and techniques of home financing. The main types in 1981 were renegotiable rate mortgages (RRMs), adjustable rate mortgages (ARMs), and graduated payment mortgages (GPMs). 8/ Also in use were long-term fixed rate mortgages with special features such as blends of old and new mortgages and buydowns by builders.

The most widely used of the new techniques in 1981 was the RRM, accounting for 2 out of 5 home mortgages. Payments are based on a 25- or 30-year term, but must be renegotiated every three or five years at then-prevailing market rates of interest. Ironically, mortgages with a large outstanding balance or balloon payment due at the end of each three or five year period were common in the 1920s and contributed to high foreclosure rates and distress sales in the early 1930s, a situation that the FHA-pioneered long-term fixed rate mortgage was intended to remedy.

Adjustable rate mortgages have been offered with varying combinations of terms. As a group, ARMs have not been well received by consumers, but the most

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8/ U.S. League of Savings Associations. Homeownership: The Dream Adrift. 1982. p 21.

acceptable have been those with least frequent adjustment (5 or 3 years) and with relatively narrow limits on increases in monthly payments. 9/ The lower interest-rate risk of ARMs compared with fixed rate mortgages from the lender's standpoint suggests a significantly lower rate to the consumer. The relatively small interest break offered on such loans partly explains the poor receptivity to ARMs by home buyers.

How will these changes in mortgage instruments and institutions affect the supply of funds for housing in coming years? In general, the changes tend to remove or lower restraints on the play of market forces in housing finance. Housing borrowers will have to compete more directly for funds with less help from specialized institutions. It is possible that mortgage money will be less subject to sharp cyclical fluctuations than in earlier decades and more generally available at going market rates. But if interest rates are high and volatile, many households will remain priced out of the mortgage market. The problem may then be perceived not as availability of funds but affordability.

Credit Requirements for Housing

Estimating credit requirements for a five to ten year period requires a projection of potential demand which in turn is dependent upon credit conditions. At the risk of circular reasoning one can ask: How much credit will be needed for housing during the remainder of the decade? Under one set of assumptions, shown in Table 4, housing starts will average 1.5 million starts per year, mobile home sales add another 300,000, and resales of existing houses average 3.3 million transactions. This level of activity would require

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9/ Louis Harris and Associates, Inc. Buying a Home in the 1980s: A Poll of American Attitudes. A Study Conducted for the Federal National Mortgage Association, 1982. pp 49-56. In May, 1983 Fannie Mae announced that it was reducing the number of ARM plans it would normally purchase, those linked to one-, three- and five-year Treasury security rates and permitting consumers to limit monthly payment increases to 7 1/2 percent in any one year.

approximately $150 billion at 1983 prices. (This dollar amount is net of mortgage repayments on resale houses and does not include mortgage funds borrowed by homeowners who do not move or funds for alterations and repairs.) A more optimistic scenario would anticipate starts of 1.8 million a year, mobile homes at 350,000 per year, and resales of 3.6 million houses. This would require some $175 billion in net mortgage loans.

Table 4

CREDIT REQUIREMENTS PER YEAR FOR HOUSING, 1983 - 1989

Housing Market Estimates	Lower	Higher
Housing starts - total	1,500,000	1,800,000
Single family	(1,100,000)	(1,300,000)
Multifamily (2 or more)	(400,000)	(500,000)
Existing home sales	3,300,000	3,600,000
Mobile home sales	300,000	350,000
Credit Requirements 1/		
	(1983 dollars - billions)	
New homes		
Single family 2/	$ 63	$ 75
Multifamily units	18	23
Existing homes 3/	64	70
Mobile homes	5	6
TOTAL	$150	$174

1/ The dollar amounts reflect the product of the number of units financed, the average price and the loan to value ratio. Calculations are based on the following:

	Average Price	Loan to Value Ratio
Single family homes	$90,000	75%
Multifamily units	54,000	85
Existing homes	80,000	73
Mobile homes	22,000	80

2/ Eighty-five percent of the new single family homes are financed; the remaining 15 percent are paid for in cash.

3/ Net loan requirements after repayment of existing mortgage upon resale; net credit required for resale financing is estimated at one-third of gross mortgage loans.

DATA SOURCES: Bureau of the Census, Federal Home Loan Bank Board, National Association of Realtors, and Manufactured Housing Institute.

There is no assurance that funds of such magnitudes can be raised for housing in the 1980s. What is implied is that total funds advanced to domestic nonfinancial sectors during this period will range between $500 billion and $600 billion a year even for the lower projection of housing credit needs. The Federal government alone is expected to borrow $200 billion or more per year for a number of years. There could be stiff competition for the balance of funds from business firms and consumers as well as State and local governments. Thus, the availability of funds for housing will turn on the state of the economy and Government fiscal and monetary policies.

Construction Costs

One way to keep housing expenses in line would be to contain construction costs. With mortgage interest rates at record-high levels in recent years, discussions of housing affordability have focused on financing charges. But development costs and selling prices of new homes have continued to rise steadily, outpacing gains in household income. From 1972 to 1979 home building costs rose at an annual rate of 8 1/2 percent a year, and 7 1/2 percent a year from 1979 to 1982. The average sales price of new homes with similar qualitative characteristics rose from $33,600 to $87,600 between 1972 and 1982. In the absence of competition from lower-priced new homes (apart from mobile homes in some areas), average sales prices of existing homes (unadjusted for qualitative changes) also surged upward from $30,100 to $80,500 during the same period.

The main components of residential development costs are building materials, labor, land and site improvements, financing charges prior to sale or rental of the completed structure, local fees, selling costs, and builder's overhead and profit. Over the past decade, on-site labor and materials—the hard costs—have declined as a proportion of total development costs; financing charges and land costs have risen. Site improvements have become relatively more expensive, reflecting requirements of local governments and environmental protection concerns. Improved sites have come to account for about 25 percent of total development costs, according to estimates of the National Association of Home Builders.

To slow the rise in building costs will not be easy. For one thing, the home building industry is made up of many small producers. A typical home builder puts up about 25 houses a year, a "big" builder 100 or more. Most of these builders, numbering about 100,000 in the nation, rely heavily on subcontractors for excavating, plumbing, electrical work and other trades. The small builder has little control over these costs and little bargaining power with materials suppliers, nor can he negotiate much over rates on construction loans. All he can do is try to pass the costs on to the home buyer in the price of the house. Nor can the individual builder afford to invest in research and development since he has too small a volume over which to spread any cost savings.

Governmental regulations over the building process may also contribute to excessive costs. Such regulations are adopted for the purpose of protecting the health and safety of residents. The specifics of such regulations, however, may be unnecessarily onerous. Zoning or subdivision regulations may stipulate a minimum lot size that effectively excludes moderate-priced houses, may require excessively wide residential streets or unreasonably large dedications of land by the developer for parks or other public uses. Building codes may prohibit the use of plastic pipe, specify framing at, say, 16 inches on center when load bearing tests would settle for 24 inches, or mandate excessive electrical capacity. Requirements of this type are estimated to add up to 20 percent to the cost of construction. 10/ Variations in

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10/ Stephen R. Seidel. Housing costs and government regulations: Confronting the regulatory maze. Center for Urban Policy Research. New Brunswick, New Jersey. 1978. p 335.

building codes from one jurisdiction to another within the same market area also may prevent builders from utilizing building crews efficiently or from obtaining cost savings through larger-quantity purchases of materials.

Efforts to industrialize the home building industry have failed to reckon with the institutional barriers and consumer attitudes. Mobile homes, sometimes referred to as manufactured housing, are a case in point. By 1980 almost 4 million such structures were in the year-round inventory of housing, but most (60 percent) were outside of metropolitan areas. Many jurisdictions prohibit such housing outright. Some local officials view mobile homes as tax burdens, paying less in taxes than the cost of services that must be provided to them. For the limited income family, a mobile home may be the only house that might be purchased at below $30,000; to a family that has purchased a conventionally built house for $60,000, such a mobile home located nearby may be regarded as a threat to one's property value.

In sum, many parties have an interest in maintaining the status quo in home building practices and slowing technological changes that might result in large cost reductions. The list includes not only small home builders, construction workers, and materials suppliers, but also thrift institutions whose loans are predicated on stable or rising house prices. Not least are the people who already own houses; their equity could be cut deeply by the availability of new houses at low prices.

Cost savings in housing are likely to be achieved incrementally rather than by a sudden technological revolution. Cost savings have been made through the introduction of factory-assembled roof trusses, plumbing trees, unit bathrooms, and two- and three-dimensional wall systems. More of such innovations may be expected.

Space standards and amenities may also be shaved. The average floor area in new single-family houses has declined since the late 1970s and a smaller proportion of new homes in 1982 had garages, fireplaces, or two or more bathrooms. Single-family houses with party walls--the townhouse type of development--have also edged up as a proportion of the single-family housing inventory. Thus, a trend may already be under way toward smaller houses and lots, fewer amenities at the time of construction, and more townhouses and higher density developments.

Maintenance of the Existing Housing Stock

When it comes to housing, most Americans live with the past. A representative family in the early 1980s occupied a structure built in the 1950s. More than three out of ten housing units in the year-round inventory date from the Great Depression years or earlier. An expected decline in housing production in the 1980s from the previous decade would result in some aging of the housing stock.

Since most current owners and occupants depend upon housing inherited from earlier generations, they are in effect trustees of a national resource. In large measure, the interests of owner-occupants and the social interest in a well-maintained housing inventory have coincided. Owner-occupants have a stake in keeping up their properties and neighborhoods in order to preserve and enhance the value of their assets. Evidently, the owner-occupied housing inventory was well-maintained for the most part and even upgraded in the 1970s. By several measures of physical adequacy, the owner-occupied housing inventory had a smaller proportion of deficient units in 1980 than ten years earlier.

But homeownership alone is not a sufficient condition of housing maintenance and improvement; it takes a good income. Among lower income owners, the situation was not as favorable: more than 2 million households (12 percent of such owner households) were found to be living in housing deemed physically inadequate (see Table 2).

The rental supply reflects a different set of dynamics. Tenants generally have an interest in maintaining the livability of their environment but no investment motive. If conditions worsen, those with means may move; a process of deterioration then feeds on itself since landlords have little incentive to keep up properties for an increasingly impoverished tenantry. Something of this sort occurred in the South Bronx of New York City and in certain rental districts of other American cities. Even owners who try to maintain their buildings may be dragged down by the disinvestment taking place all around them.

For many landlords rental housing became a less attractive investment in the 1970s. Operating expenses rose faster than rental income; to maintain a positive cash flow some owners of rental properties cut back on custodial services and maintenance and deferred replacement of heating plants, roofs, or other major components.

Meanwhile, a number of renter households with adequate incomes chose to buy homes or apartment units. Those entering or remaining in the rental sector primarily were people with below-average incomes. Median incomes of renter households relative to owner households declined from 65 percent to 53 percent between 1970 and 1980.

Despite the adverse economics, some of the worst rental units were fixed up during the 1970s; other poor units dropped out of the inventory. Thus, the proportion of renter-occupied dwellings lacking full plumbing or complete and unshared bathrooms and kitchens dropped below 5 percent by the end of the decade. By other measures, however, the condition of many rental units left much to be desired: among lower income renter households, more than

3 million (19 percent of such households) were living in accommodations found to be physically inadequate (see Table 2). The deficiencies--cracks in walls and ceilings, holes in floors, faulty electrical wiring and unreliable plumbing--were of the type that cumulate over time into major repair or replacement costs. With tenants who can hardly afford substantial increases in rents to cover rehabilitation, a time bomb is ticking in portions of the rental inventory.

Utilization of Residential Space

The American population is generously housed in terms of space. At the start of 1981 there were approximately 86 million year-round housing units in the United States and 450 million rooms. The occupied housing supply contained about 420 million rooms or almost two rooms for each person living in a household. In 1950 the ratio was just under 1.5 rooms per person. In the decade of the 1970s more than 100 million rooms were added to the inventory, or more than 6 rooms for each additional household.

While the population as a whole is well endowed with space, there are important differences among groups. Owner households had considerably more space per person than renters; affluent households had more space (and of course better facilities) than poorer ones. Households headed by blacks and those of Spanish background had much less space than other households. Nineteen percent of Hispanic households and 9 percent of black households had more than one person per room compared with only 2 percent for all other households.

If housing production in the 1980s is low relative to demographic demand and normal replacement requirements, the existing housing inventory will have to be used more intensively. Compared with some earlier periods, the rental supply has been quite tight in recent years with a vacancy rate just over

5 percent. Over a 20-year period the national rental vacancy rate has ranged between 4.8 percent and 8.5 percent, with 6 percent or 7 percent regarded as "normal." Little change is anticipated in the vacancy rate for homeowner housing, which has moved narrowly between 1 percent and 1.5 percent since the 1960s.

In a number of localities, rental markets are tighter than the national average with vacancy rates in the range of 2 percent or 3 percent. Moreover, vacant units for rent are generally less desirable than occupied rentals. Vacancy rates are higher among units with only a few rooms and those lacking plumbing facilities. Such characteristics, together with the relatively low overall rental vacancy rate, suggest limited capacity to accommodate many additional households. In fact, they may even restrict mobility of existing households.

In addition to vacant and available units, several million dwellings are vacant but held off the market for a variety of reasons. A substantial proportion are in the South with many probably held for recreational use or as second homes. These off-the-market vacancies are not likely to constitute a significant source of potential residential space even in a period of sustained tightness in the general housing supply.

Along with low vacancy rates we are likely to experience a slowing in the rise in space per person and perhaps a reversal. This can occur when population is expanding more rapidly than housing production and conversions to residential use. Tighter living conditions will not be distributed evenly among all households, however. In the 1950s single-room occupancies by entire families were not uncommon among Puerto Rican migrants to New York City. Similar difficulties may be encountered in the 1980s by immigrants of Hispanic origin with marginal incomes. But the problem may not be confined to ethnic minorities; young adults of limited means and poor families in general will not find it easy to upgrade their space standards in the period just ahead.

Racial Differences and Discrimination in Housing

The quality of housing occupied by black households has improved markedly since the 1960s, and there has been some narrowing of qualitative differences between blacks and whites. But residential segregation by race remains the dominant pattern despite some increased access to suburban housing by blacks during the past decade.

For 28 cities with 100,000 or more blacks in 1980, the segregation index was calculated at 81, down only slightly from 87 in 1970. 11/ (The index would be 100 where every block is either 100 percent black or 0 percent black, and zero where every block has the same ratio of blacks to total as the entire city population.) Blacks did move in large numbers to the suburbs during the 1970s. But some of this growth was simply spillover from central city neighborhoods. And counties at the edge of metropolitan areas became more white during the decade. Thus, the suburbanization of blacks is not clearly a trend toward integrated living arrangements. 12/

While more than two out of five black households were homeowners in 1980 (almost seven out of ten for whites and other races), their properties were less likely to command prices as high as comparable ones sold by whites. This has been attributed to reluctance of whites to purchase homes from blacks and to steering of homeseekers to particular neighborhoods by real estate

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11/ Karl Taeuber, "Racial Residential Segregation, 1980," in Citizens Commission on Civil Rights. A Decent Home: A Report on the Continuing Failure of the Federal Government to Provide Equal Housing Opportunity. April 1983.

12/ Larry Long and Diana DeAre, "The Suburbanization of Blacks," in American Demographics. September 1981.

firms. 13/ Thus black families have not been able to accumulate assets through homeownership to the same degree that majority households have.

In 1980 about 6 percent of black households occupied units that were not minimally adequate (without full plumbing or complete kitchens) and 9 percent were overcrowded (more than one person per room). These indicators were down sharply from 1960 when about one-third of all blacks were in deficient or overcrowded accommodations. Gains in housing quality for blacks have come during periods of relatively high housing production levels nationally and in particular localities. Chicago's black population, for example, made more improvements in housing relative to whites in the 1960s and early 1970s when the housing supply was expanding than in the low production-high immigration decades of the 1940s and 1950s. 14/

Deprivation in living arrangements is found not only inside the housing unit but in poor neighborhood conditions. This is evidenced by junked cars on the streets or lots, insufficient play space, obsolescing schools, and abandoned properties. For example, 18 percent of black households reported boarded-up buildings on their streets; among Hispanics the ratio was 10 percent and for all others only 2 percent. In racially segregated neighborhoods, blacks also pay higher theft and fire insurance rates, have more difficulty in securing mortgages from institutional lenders, and lack knowledge of or access to jobs in the growth parts of metropolitan areas. 15/

13/ Robert W. Lake. The new suburbanites: race & housing in the suburbs. Center for Urban Policy Research, New Brunswick, New Jersey. 1981. pp 195 ff. According to this study, black sellers obtained on average 10 percent less than whites for similar houses.

14/ Studies by Berry, Duncan and Duncan and Duncan and Hauser cited in "Racial Inequalities in Housing: An Examination of Recent Trends," by S. Bianchi, R. Farley and D. Spain, Demography, Volume 19, Number 1, February 1982.

15/ John F. Kain and John M. Quigley. Housing markets and racial discrimination: a macroeconomic analysis. National Bureau of Economic Research. Distributed by Columbia University Press. New York. 1975.

The wide disparity in housing conditions between blacks and whites is not entirely attributable to racial prejudice and discrimination. Some is explained by differences in income and education, or family composition, or residential location. Blacks have lower incomes than whites and so cannot afford as good housing; female-headed families with children are less likely to be homeowners than husband-wife families, and 45 percent of black families with children as compared with 14 percent of white ones are headed by a woman; and central city dwellers generally live in older structures than suburbanites. But researchers have found that such factors can explain only one-third to one-half of the racial differentials in within-unit crowding, structurally inadequate housing, and owner occupancy. Racial prejudice and discrimination, they infer, is a big contributor to poor housing conditions of blacks. 16/

There is plenty of anecdotal information that blacks frequently encounter discrimination when they seek to rent or buy a house. But there is also systematically gathered evidence of such discrimination. In 1977 more than 3,200 tests were conducted in 40 metropolitan areas of information and treatment provided by real estate brokers and agents to matched black and white homeseekers. The tests were carried out by the National Committee Against Discrimination in Housing under a contract with the Department of Housing and Urban Development with the objective of determining whether housing would be as available to blacks as to whites. The survey concluded that blacks would come up against discriminatory treatment in 27 percent of their efforts to rent and 15 percent of their attempts to buy a house. These are conservative estimates; HUD analysts believe that discrimination may be more serious than these figures indicate. 17/

16/ "Racial Inequalities in Housing: An Examination of Recent Trends." Cited above.

17/ J.M. Yinger, G.C. Galster, B.A. Smith, and F. Eggers, "The Status of Research into Racial Discrimination and Segregation in American Housing Markets: A Research Agenda for the Department of Housing and Urban Development," in Occasional papers in housing and community affairs. Volume 6. December 1979. pp 61-66.

Fair housing orders and statutes have prohibited discrimination in housing since the 1960s. The most comprehensive of these efforts is contained in Title VIII of the Civil Rights Act of 1968, which forbids discrimination because of race, color, religion, sex or national origin by landlords, real estate firms, and financial institutions, and applies to most of the private and public housing supply. But discriminatory practices have apparently become more complex and subtle since the passage of fair housing legislation. Such laws may have contributed to the narrowing of qualitative disparities in housing between blacks and whites, at least by minimum standards. But progress toward integrated living patterns has been slow in most areas. Civil rights have not been a high priority for Federal, State, or local governments in recent years, and even within the civil rights movement housing has been on the back burner.

Civil rights advocates urge an end to benign neglect in this area and call for a more affirmative approach by governments and private groups. In 1983 a private Citizens Commission on Civil Rights urged a number of changes in Federal laws and practices including: 18/

- vesting HUD with an administrative enforcement mechanism to give prompt remedy to victims of discrimination as compared with the discouraging delays involved in court litigation;
- providing Federal funds for counseling of low-income persons in their housing search; and
- authorizing the award of reasonable fees for attorneys and expert witnesses to the prevailing party so as to assure access to the judicial process.

The Reagan administration itself recommended changes in the fair housing laws. In proposals announced in the spring of 1983, the administration asked for legislation to authorize the Justice Department to take suits directly to

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18/ Citizens Commission on Civil Rights. A Decent Home. Cited above. The commission members included Arthur S. Flemming and Theodore M. Hesburgh, former chairmen of the U.S. Commission on Civil Rights, and 15 other distinguished Americans.

Federal courts on behalf of individuals who allege discrimination. Under current law the Justice Department can act only when it finds a pattern or practice of housing discrimination.

Policy Options for Housing

Policy choices for housing can be grouped under three headings:

1. Housing's share of credit and resources;
2. Who will get housing preferences or assistance;
3. How credit, tax preferences or subsidies will be provided.

A strong commitment to housing would require an allocation of a large share of total funds raised in credit markets by nonfinancial sectors, an average of one-fourth to one-third of the aggregate over a period of years. Whether such levels of credit will flow into housing in coming years is problematical. The financial world has changed as a result of inflation in the 1970s, and the terms at which funds can be borrowed for housing will not be as favorable as in the earlier period. As mortgage pools and secondary market facilities take on a larger share of mortgage financing, home borrowers will have to compete head-to-head in the capital markets with muscular borrowers--business corporations and the Federal government itself. Monetary and fiscal policies that generate expectations of a resurgence of inflation and high interest rates would be particularly adverse to the housing sector.

Who will get housing preferences or assistance? If benefits are provided, should they go to the poor, the middle-income groups or the affluent, and in what measure? The current system of housing benefits provides tax breaks or direct subsidies for households at all income levels, but more to the affluent than the poor. Under the tax code, homeowners may deduct from taxable income all payments of interest on home mortgages and real estate taxes. This is by far the largest and most pervasive benefit for housing. The revenue losses associated with this preferential treatment of owner-occupied real estate under the Federal tax laws are estimated at almost $32 billion in fiscal year 1982. Some 32 million taxpayers shared in these benefits, with the largest tax savings going to the highest income groups. In 1982 the average tax reduction for middle-income homeowners ($20,000-30,000) was about $600, but taxpayers with incomes of $100,000 or more had average savings of $3,500. It is interesting to note that almost 9 out of 10 upper bracket taxpayers ($50,000 and up) availed themselves of this tax preference.

Families of moderate or middle income have been the principal beneficiaries of mortgage insurance, guarantee or direct loan programs administered by the Federal Housing Administration (FHA), the Veterans Administration (VA) and the Farmers Home Administration (FmHA). Since its inception in 1934 through 1982 the FHA has insured a total of 11.1 million home loans under its so-called market level programs and 2.6 million home loans for riskier borrowers. FHA has also insured mortgage loans for multifamily projects encompassing 3.2 million units, some of which accommodate relatively low-income people.

The VA guarantees have helped about 11 million veterans to buy homes. Home loans by Farmers Home have gone to almost 1.5 million families, most of whom had incomes below the national median but above the poverty threshold.

In addition, through 1982 more than 200,000 households had bought homes with mortgages provided by State and local agencies at below-market interest rates. The mortgages were financed by the sale of tax exempt mortgage revenue bonds. More than half of such loans made in 1982 went to people with incomes above the medians in their states. In authorizing loans of this type, Congress intended that a large portion go to families with below-median incomes. 19/

19/ U.S. General Accounting Office. The costs and benefits of single-family mortgage revenue bonds: preliminary report. April 1983.

Some low-income people receive housing assistance through HUD programs or indirectly through welfare payments. Payments by HUD for public housing and leased rental housing came to $6.9 billion in fiscal year 1982. About 2.9 million households benefited from these HUD programs, most of them with incomes 50 percent of median or below, adjusted for household size and location. A criticism of these programs is that they are not nearly large enough to serve all households who would be eligible on an income basis: only one out of six eligible households is actually served.

Recipients of welfare under Federal programs of aid to families with dependent children (AFDC) and supplemental security income (SSI) are among the poorest Americans. In 1982 about 3.6 million families (10.4 million individuals) received help through AFDC and almost 4 million individuals from SSI. Total payments to these people under the two programs from Federal sources was $13.7 billion for the year. Households who receive such assistance typically spend about 40 percent of their income on shelter. At this ratio their federally-subsidized shelter costs came to about $5.5 billion. 20/

To sum up, Federal benefits for housing have been provided mainly to middle-income and upper-income households through tax preferences and mortgage guarantee and loan programs for homeownership. For every dollar spent in 1982 for low-income households under HUD programs, the Treasury lost four and one-half dollars in tax receipts from middle- and upper-income homeowners.

20/ A substantial proportion of households living in HUD-assisted housing are recipients of AFDC or SSI support. Such households pay either the amount earmarked for housing in their welfare assistance or between 27 and 30 percent of their adjusted income for rent.

A policy alternative would be to balance the scales by providing more housing assistance to low-income families. In recent years, however, advocates of subsidized housing for the poor have been fighting a rearguard action to limit deep cutbacks in assistance for additional families. Suggestions to limit or cap interest deductions by homeowners or to provide uniform tax credits have, on the other hand, encountered such stiff resistance that few lawmakers will even discuss the subject.

Finally, there are questions about the form of housing benefits. With regard to programs for the poor, a critical issue is whether to build new housing for low-income people or provide them with vouchers that can be used to rent existing housing. This issue has been debated vigorously in recent years, but the argument goes back at least to the 1930s when the Congress voted for newly constructed public housing rather than rent certificates that could be used in privately owned existing apartments.

The case for using existing housing has been buttressed by federally-supported studies conducted under an experimental housing allowance program. Proponents hold that existing housing has a number of advantages:

a. it is less expensive than new construction per household served;

b. allows participants to pick and choose in the market like everybody else;

c. requires less government involvement in the housing market;

d. does not push up rents, as feared by some critics;

e. induces landlords to fix up substandard properties to make them eligible for participation.

Those who favor new construction do not deny that it is more expensive per family than vouchers for existing houses, but present the following points:

a. there are shortages in some market areas and/or in some types of accommodations, such as units for large families, the handicapped and the frail elderly;

b. rents could indeed rise in certain areas and segments of the market under the pressure of a broadly available housing allowance program;

c. consumer choice is a sound principle for informed, middle-income people, but may not work for low-income and minority families; in fact, those who participated in the housing allowance experiment remained in the same or nearby neighborhoods, and there was little dispersion of minority families in white neighborhoods;

d. the amount of fix-up or rehabilitation resulting from the experiment was minimal--less than a hundred dollars per unit when there was any improvement work at all.

Voices are again being heard that this is not an either/or proposition, that both housing vouchers and new construction are elements of a comprehensive housing program for the poor, just as Congress recognized in 1974 by adopting both new and existing components for the rental program known as Section 8. Housing vouchers permit more families to be helped with a given level of spending than new construction. If funding levels were adequate to help all or most income-eligibles--a big if--vouchers or housing allowances would represent a marked increase in equity. But there is also a place for new construction under some circumstances, as President Reagan's Commission on Housing concluded. Debate will continue on the appropriate mix of new and existing housing.

There are disparate views on a host of other housing issues:

- whether it is efficient to promote rental housing construction by means of shallow subsidies;
- how to induce owners of multifamily rental housing to maintain and rehabilitate this stock without wholesale economic displacement of the present tenants;
- whether it is possible to stimulate new home construction without simply substituting for housing that would have been built anyway;
- how to moderate the sharp cyclical swings in construction and sales of housing
- methods for reducing construction costs;

- what incentives to offer for more efficient space utilisation in the existing inventory of housing; and
- how to reduce racial segregation and discrimination in housing.

Some of the most important decisions affecting housing are not known as "housing policy." Changes in tax laws, legislation permitting the transformation of financial institutions, and shifts in welfare programs all have profound effects on levels of investment and consumption of housing. And the actions of the Federal Reserve Board may have wider consequences for housing activity than those of the Secretary of Housing and Urban Development. Good housing is one of the prizes that a wealthy society can offer its citizens. How much each individual and group gets is partly a matter of private market decisions, but it is also heavily shaped by public policies.

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"RENTAL HOUSING FOR THE LARGE FAMILY"
CONGRESSIONAL RESEARCH SERVICE, THE LIBRARY OF CONGRESS

Homeownership generally is considered to be a sound investment. Equity in homes is the largest source of personal assets in the United States. Between 1970 and 1978, the number of owner-occupied units increased by 10.4 million or 26 percent. This increased demand for homeownership has been accompanied by a smaller growth in the number of available rental units. From 1970 to 1978, the number of available rental units grew only half as fast as the number of owner-occupied units, despite a spurt in multifamily construction in the early 1970s.

Why has this decline in the supply of rental housing occurred? Some analysts say that it is simply because the demand for rental housing is less than the demand for owner-occupied housing. Others believe the problem lies not in declining demand for rental housing, but in the decline of rental housing construction, for which there are several reasons. Some of these are:

1. Fear of actual or potential rent control. This influence probably has caused a significant amount of conversion of rental housing to owner-occupied dwellings. [1]
2. Operating costs for rental properties have risen faster than rental income in most cases, imperiling the solvency of many rental properties, both subsidized and unsubsidized. Operating cost increases reflect general price inflation, especially for energy.

Since housing suppliers build with expectations of earning a profit, the number and type of housing units available are a consequence of builders' perceptions of housing demand. Between 1960 and 1978, the number of households in the United States increased by 42 percent to a total of 76 million, while the population increased by only 20 percent. 2/ One major cause for this increase in households is the phenomenal increase in one person and single-parent households, which together comprise over 29 percent of all American households (see Table 1).

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[1] Brueggeman, William B. Conference on Rental Housing: Implications for Policy and Research. South Methodist University, Dallas, Texas, 1980. p. 2.

TABLE 1. Composition of Households and Families 1978, 1970, 1960

Types of Households	1978	1970	1960
All households (000's)	76,030	63,401	52,799
Percent	100.0%	100.0%	100.0%
Non-Family Households	25.1%	18.8%	14.7%
Persons living alone	22.0%	17.1%	13.1%
Other non-family households	3.1%	1.7%	1.6%
Family Households			
Married—no children	74.9%	81.2%	85.3%
Married—with children	29.9%	30.3%	30.3%
One parent with children	7.3%	5.0%	4.4%
Other family households	5.3%	5.6%	6.4%

Source: U.S. Department of Commerce. Bureau of the Census, 1979.

The rental stock has been adjusting to this smaller household size. Between 1960 and 1977, the proportion of single-family homes, both attached and detached, in the rental stock, dropped from 48 percent to 31 percent of the

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2/ Smull, Cecile. Housing Our Families. U.S. Dept. of Housing and Urban Development, Office of Policy Development and Research. Wash., D.C. August 1980. p. 1-1.

total. 3/ This drop was due, for the most part, to increased owner sales to occupants. Today, only one in five renters lives in a single-family dwelling, as compared to one in three in 1960.

Single-family homes available for rent are usually larger and contain more rooms than rental units in multifamily structures. Most single-family homes have five or more rooms, while 86 percent of the units in multifamily structures have four rooms or less. Thus, the limited rental stock--especially where three or more bedroom units are concerned--works a hardship on large families and those ethnic groups that traditionally live in extended families.

Households with Black, Hispanic, or female heads of households are less likely to own homes than the average household and are more likely than others to have a difficult time finding adequate, uncrowded rental housing (see Table 2).

Many Black and Hispanic households contain one or more subfamilies. This is partly an expression of preference, but in many cases it is also a result of limited income and restrictive rental practices that often are directed at families with children. Doubling-up of families often is necessary because of the difficulty in finding affordable rental housing that will accept large families.

The Department of Housing and Urban Development (HUD) estimates that by 1990, approximately 4.4 million families headed by women will account for 43 to 50 percent of all renter households with children. These families will be competing with 28 to 30 million other renter households (two-thirds of which will not have children) for housing. Complicating matters is the growth in the number of rental units that exclude or restrict children. Many of the units that do accept children have restrictions, such as the number of

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3/ Smull. Op cit., p. 4-5.

TABLE 2. Households with Children Living in Inadequate Housing
(Numbers in Thousands)

Total	All households with children	All households with children inadequately housed	All children in households	Children in inadequate housing
Number	30,439	3,503	62,114	8,119
Percent	100.0	11.5%	100.0%	13.1%
White				
Number	24,190	2,159	47,697	4,619
Percent	100.0	8.9%	100.0%	9.7%
Black				
Number	3,609	764	8,274	2,047
Percent	100.0	21.2%	100.0%	24.7%
Hispanic				
Number	2,126	458	5,110	1,229
Percent	100.0	21.5%	100.0%	24.0%
Other				
Number	512	123	1,032	224
Percent	100.0	23.9%	100.0%	21.7%

Source: Special Tabulation from Annual Housing Survey 1977.

children that can share a bedroom, or do not permit children of different sexes (many times even in the case of infants) to share the same bedroom (see Table 3).

TABLE 3. Percentage of All Rental Units (Including Single-Family Units) Having Restrictions on Children*

Restriction	Efficiency	1 Bedroom	2 Bedrooms	3 or more Bedrooms
No children permitted	35.3%	41.5%	20.1%	3.7%
Children accepted with limitations on:				
number	41.1%	38.6%	49.6%	52.0%
age	1.9%	6.2%	7.0%	4.4%
sex	8.6%	15.1%	21.5%	27.1%
location	3.4%	10.1%	12.6%	7.0%
Children accepted no restrictions	20.0%	17.9%	25.8%	38.4%
Number of units	4,343	26,410	31,831	7,589
Number of managers responding	141	367	432	224

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* Note: This is not a horizontal distribution, but a comparison of four types of dwellings. Therefore, figures will not total 100 percent horizontally, nor will they total 100 percent vertically, due to overlap in specific categories.

Source: Measuring Restrictive Practices Affecting Families with Children. U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 1980.

Rental units in apartments are much more likely to have restrictions limiting the number of children, regardless of the number of rooms in the unit. Only 18 percent of all single-family units do not rent to families with children. This exclusion usually applies to one-bedroom units and is least likely to apply where there are three or more bedrooms.

One of the justifications given by managers for initiating policies restricting children is that tenants without children prefer to live in places that exclude children. However, a survey conducted by HUD showed that only 25 percent of the surveyed renters with no children preferred not to live near children. Managers have also stated that excessive damage and vandalism of rental property occurs when apartments are leased to families with children. Their concern is mainly associated with two-earner and/or single-parent families who, they believe, would not or could not properly supervise their children. However, to date there are no empirical studies comparing maintenance costs or damage repair costs between buildings which do and those which do not rent to families with children. 4/

In a recent Gallup poll prepared for the White House Conference on Families, 57 percent of respondents favored outlawing discrimination aginst single-parent families, while 35 percent opposed such measure, and 8 percent expressed no opinion. 5/

Very few court decisions address the issue of rental policies with respect to children. As a result, only eight States and the District of Columbia have statutes specifically prohibiting discrimination against families with children in rental housing. They are Arizona, Connecticut, Delaware, Illinois, Massachusetts, Minnesota, New Jersey, and New York. Until such laws are passed in all 50 States, what can be done to relieve large families in need of adequate housing?

4/ Smull. p. 5-16.

5/ The Gallup Organizations. American Families--1980: A Summary of Findings. Princeton, New Jersey.

If the available rental stock could be increased through some appropriate incentives, large families could obtain long-term relief. Supply incentives could focus on either new construction of multifamily units, or, as promoted by the present Administration, a more effective use of the existing housing stock. Some amount of new construction surely will be necessary, but due to rising costs, perhaps a more innovative utilization of existing dwellings could be considered. One possibility might be the encouragement of "shared housing." This concept might prove particularly attractive to elderly homeowners who have a limited income. They could share their homes with families in need of housing and thus have their housing costs defrayed. Many of the larger single-family homes occupied by these elderly homeowners could be converted into dwellings where two families could live in near total independence and privacy. Another possibility would be to convert unused public and private structures, such as warehouses and schools, into dwellings suitable for occupancy by several large families. This would add to the housing stock and put to use many underutilized facilities.

As we have seen, how to increase the supply of rental units affordable to families with children is an important issue. Increasing the supply would not be enough if occupancy standards would still disqualify some of these families from housing for which they seem to be eligible. While standards are needed to prevent excessive overcrowding and substandard housing conditions, we must be careful that these standards do not deny families needed housing opportunities. Because of the increased diversity of families, careful investigation, planning, and development are necessary in order to formulate a housing policy which would be responsive to the needs of all.

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Committee note.—In response to a question from Mr. Marriott (p. 154) about AFDC's effect on families staying together, Mrs. Sawhill submitted an article she had co-authored: "Welfare Policy and the Family" which appeared in *Public Policy,* Volume 26 No. 1 (Winter 1978).

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